Manitoba

Annual Report 1991

The Public Utilities Board

January 1, 1991 — December 31, 1991

Includes 10% post-consumer waste

The Honourable Linda McIntosh
Minister of Consumer and Corporate Affairs
343 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mrs. McIntosh:

Pursuant to the provisions of Section 109(1) of The Public Utilities Board Act, I am pleased to submit to you the Thirty-second Annual Report of the Board, pertaining to the year ending on the Thirty-first day of December 1991. This Annual Report is submitted to you on behalf of my colleagues who served on the Board for the period covered by this report.

The Board would like to take this opportunity to thank its legal, engineering and accounting advisors and Board staff for their dedication in assisting the Board in fulfilling its workload for this calendar year. The Board would also like to thank its former Chairman E. J. Robertson, for his leadership and dedication.

Respectfully submitted, this 28th day of February 1992.

Sincerely,

G. D. Forrest
Chairman

92-06266/

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RESPONSIBILITIES

The Public Utilities Board (the Board) is an independent quasi-judicial body operating under the authority of the Manitoba Legislature.

The Board is responsible for the regulation of public utilities as defined under The Public Utilities Board Act in all matters and in such manner as set out in that legislation. Other enactments which assign regulatory or adjudicative responsibilities to the Board are:

The Crown Corporations Public Review and Accountability and Consequential Amendments Act (proclaimed on January 17, 1989) - referred to herein as The Crown Corporation Act*

The Greater Winnipeg Gas Distribution Act

The Gas Pipe Line Act

The Gas Storage and Allocation Act

The Prearranged Funeral Services Act

The Cemeteries Act

The Municipal Act (local utilities)

The City of Winnipeg Act (passenger carrier agreements)

The Manitoba Water Services Board Act (Appeals)

The Highways Protection Act (Appeals)

*Manitoba Telephone System's, Manitoba Hydro's and Manitoba Public Insurance Corporation's regulated rates are determined pursuant to The Crown Corporation Act

The Board is also charged by Orders-in-Council relating to a Canada-Manitoba Agreement to adjudicate certain disputes arising between the Manitoba Telephone System and licensed Cable Television Operators.

MEMBERS OF THE BOARD

As of December 31, 1991 the membership of the Board included the following:

Member	Date of Appointment
Mr. G. D. Forrest, Chairman	September 4, 1991
Mr. M. J. Anseeuw, Vice-Chairman	December 21, 1988
Mr. D. T. Anderson, Q. C.	June 7, 1989
Ms. Catherine Milner	June 7, 1989
Mr. Wm. Pearson, Q. C.	June 7, 1989
Ms. D. Barrett-Hrominchuk	August 2, 1989
Mr. T. D. Bulloch	August 2, 1989
Mr. H. Enns	August 2, 1989
Mr. Wm. Laird	August 2, 1989
Ms. S. Lount	August 2, 1989
Ms. G. Russell	January 23, 1991
Ms. S. Locker	November 13, 1991

Mr. J. E. Berry, previously Vice-Chairman resigned from the Board on November 13, 1991. His dedication to the Board's activities will not be forgotten and we wish him well in his new endeavours.

Mr. M. J. Anseeuw was appointed Vice-Chairman on November 13, 1991.

SUMMARY OF BOARD ACTIVITIES

BOARD MEETINGS AND HEARINGS

A total of 181 Board Meetings and public hearings were held in 1991:

Board Meetings	97
Public Hearing Days	79
Pre-Hearing Conference Days	5

ORDERS ISSUED

During the year ending December 31, 1991, 156 Orders were issued, as follows:

Regulated Industry Orders:

Water and Sewer Utilities	82
Natural Gas and Propane	20
Manitoba Telephone System	29
Manitoba Hydro	12
Transit	3
Manitoba Public Insurance Corporation	7

Highways Protection Act Orders:

Appeal	3

NOTE: Copies of the decisions of The Public Utilities Board of Manitoba are available from the Board's office upon request.

NATURAL GAS DISTRIBUTION

CENTRA GAS MANITOBA INC.

Subsequent to the acquisition by Westcoast Energy Inc. of the assets of Manitoba's natural gas distribution Company, (ICG Utilities (Manitoba) Ltd.), the name was changed to Centra Gas Manitoba Inc. (Centra) in January of 1991. During 1991, the Board considered five different matters in respect of natural gas involving the Company:

- General Rate Applications
  - Interim Refundable Rates, effective January 1, 1991, based on a 1990 test year.
  - Confirmation of the January 1, 1991 Interim Refundable Rates
  - Rates, effective January 1, 1992, based on a 1991 test year
- Expansion of Franchise Areas
- Direct Purchasing of Natural Gas by Consumers
- Long Term Storage Arrangements
- Service Disconnection and Reconnection

GENERAL RATE APPLICATIONS

1990 Interim Refundable Rate Application

The Company applied to the Board on December 4, 1990 for an order approving rates to become effective January 1, 1991, based on 1990 mid-year data. The Company requested that these rates be approved on an interim refundable basis without public hearing. The Board conducted a hearing with the Company officials in the Board's offices on December 7, 1990 and subsequently issued Order 179/90 wherein the Company's request for an interim Ex Parte order was denied.

The Board decided to hold a public hearing to consider this application, on a prima facie basis, commencing on February 7, 1991 with the scope of the hearing to be restricted as follows:

1. Matters related to financial need would include forecasted operating results for 1990 and 1991 including important elements of cost increases that are not currently covered by existing rates.
2. A specific review of matters related to the increase in bad debt expense and matters related to the Company's inability to disconnect delinquent customers.
3. An overview of matters related to growth in rate base and related increase in depreciation expense.
4. Matters related to the changes in the cost of gas.
5. Limited review of matters related to rate of return.

6. Limited examination of cost allocation studies since the Board expected that the rate design methodology and revenue to cost ratios will remain generally in line with those previously allowed by the Board.

The Board reviewed the application on a prima facie basis, with the understanding that the interim refundable rates if approved by the Board would be examined with the Company's General Rate Application filing for January 1, 1992 rates.

The Company in its application, which was based on 8 months actual and 4 months forecast 1990 data, sought:

- A 1990 mid-year rate base of $224,535,918;

- A return on equity of 14%, from the 13% previously approved, and a debt/equity ratio of 62/38, resulting in a requested overall rate of return of 12.97%;

- A revenue requirement from gas sales of $266,502,004, representing a revenue deficiency of $9,044,428 or an increase of 3.51%;

- Rates to be retroactive to January 1, 1991 and a change in the rate structure which would increase the fixed monthly charge from $8.00 to $10.00 for the Brandon Small General Service Class (SGS) and from $10.00 to $11.00 for other SGS customers and an increase in the fixed monthly charge for the Large General Service (LGS) class from $40.00 to $45.00;

- Establishment of a deferral account for bad debt expense effective January 1, 1991; and

- Six rate riders for a 10 month period commencing March 1, 1991 because of: additional 1990 transportation tolls of TransCanada Pipelines Limited for a 12 month period; increased 1990 bad debt expenses; a revenue deficiency from January 1 to February 28, 1991; a refund for non-recurring revenues for sales of transportation capacity; a refund for decreased compressor fuel costs; and decreased 1990 gas costs for November and December of 1990.

A public hearing was held in Winnipeg, Manitoba from February 7 to February 12, 1991. Subsequently the Board issued Order 15/91, dated February 27, 1991 which approved the following:

- A Rate Base of $224,392,356, a return on equity of 13.0% for an overall rate of return of 12.45%, resulting in a revenue requirement of $262,466,459 and a revenue deficiency of $5,251,176 or an increase of 2.03% over existing revenues.

- An increase in the fixed monthly charge for the Brandon SGS customers from $8.00 to $9.00 and no increase in the fixed monthly charge to other SGS customers.

- An increase in the fixed monthly charge from LGS customers from $40.00 to $45.00.

- All rate riders, with the exception of the one related to the 1990 bad debt expense, which was denied.

- The establishment of a deferral account in an amount equal to the 1991 actual bad debt expense and $4,500,000 which was included in the 1991 rates. This account commenced, as of January 1, 1991, in a $2,000,000 deficit position.

The Board also instructed the Company to file a copy of its lead/lag study related to working capital allowance in conjunction with the Company's next General Rate Application, to report on the status of the Company's operational audit previously ordered by the Board and to provide justification for customer weighing factors used in its cost allocation study.

The Board instructed the Company to refile its Rates Schedules to reflect Board adjustments to the Company's application. The Company compiled with this instruction and the Board issued Order 19/91, dated March 1/91 (later amended by Order 23/91, dated March 11/91) which approved rates effective March 1, 1991, retroactively to January 1, 1991.

The annualized impact of the January 1, 1991 rates, for each customer class was as follows:

CUSTOMER CLASS	PERCENT INCREASE	
	REQUESTED	ALLOWED
SGS	5.36%	3.3%
LGS	(0.53%)	(1.2%)
Special Contracts	0.00%	0.00%
Interruptible	6.69%	5.9%
Overall	3.51%	2.03%

Including all approved rate riders, the January 1, 1991 rates resulted in increases to the typical residential consumers' annual heating bills of 5.0% for Brandon customers and 3.1% for other customers within the Province.

1991 General Rate Application

In June of 1991 the Company applied to the Board for:

i/ an order confirming the interim refundable rates approved in Order 19/91 and 23/91 based on a 1990 test year;

ii/ a rate rider for a 12 month period commencing January 1, 1992 to recover decreased gas margins related to 1990 gas costs and revenues; and

iii/ approval of a year-end Rate Base, Rate of Return and retail rates to be effective January 1, 1992 based on a 1991 historical test year. The Company filed actual 1990 results and 7 months actual and 5 months forecast 1991 results in support of this application.

The Company's actual 1990 results included in this application compared to the part actual part forecast results used by the Board in approving the January 1, 1991 interim refundable rates (IRR) are shown below (the 1990 actual revenue deficiency included changes in accounting methodology applied for in the Application):

($000s)		
CATEGORY	1990 IRR	1990 ACTUAL
Net Utility Plant	$200,828	$200,841
Working Capital Allowance	26,361	27,104
Contributions in Aid of Construction	(2,797)	(2,810)
Rate Base	$224,392	$225,135
Cost of Gas	$164,260	156,841
Operating Expenses	44,716	43,675
Amortization	894	1,094
Depreciation	8,526	8,509
Municipal & Other Taxes	10,878	10,803
Income Tax	9,256	9,310
Return on Rate Base	27,937	28,705
Other Income	(3,758)	(3,581)
Gas Revenues Required	$262,709	$255,356
Revenues - Prior Rates	$257,458	$246,297
Revenue Deficiency	$5,251	$9,059

The increase in the revenue deficiency over that requested in the 1990 IRR filing was, in part, attributable to:

i/ an increase in the overall return on Rate Base from 12.45% previously allowed to 12.75%;

ii/ a change in method of calculating the cash requirement for the working capital allowance component of Rate Base based on the results of the lead/lag study; and

iii/ decreased margins related to cost of gas.

The decreased margins were as a result of a proposed change in normalization methodology. The Company proposed an update in the 30 year period used in estimating normal weather change to the use of a 10 year rolling period, a change in the method of using propane for peaking supply, and the use of actual 1990 weather normalization instead of that forecast in the 1990 IRR and differences in currency exchange rates related to the Company's USA peaking supply contract. These decreases in margin were offset partially by decreased Western Gas Marketing Limited (WGML) gas supply costs.

The Company did not request increased rates to recover the overall revenue shortfall but did request a 12 month rate ride in the amount of $826,842, effective January 1, 1992 to recover the shortfall related to gas costs.

The application specifically requested Board approval of the following items:

- An increase in the allowed return on equity from 13% to 13.75%, a debt/equity structure of 60.33/39.67, resulting in a decrease in the overall rate of return from 12.50% to 11.87%, due to decreased short term borrowing rates.

- A 1991 year-end Rate Base of $236,361,441, comprising of $210,879,158 in net utility plant and $25,482,283 in working capital allowance.

- An increase in depreciation expense to move to calculating depreciation expense on year end plant balances and a phase-in of previously approved depreciation rates.

- An annual revenue requirement from gas sales of $261,884,036, representing a revenue deficiency of $6,326,847 or 2.49% over revenues generated by 1991 rates. The revenue requirement included an increase of $560,000 in costs related to ongoing incremental costs related to disconnect activities.

- The use of a new normalization methodology, normal degree day calculations using a 10-year weather data base, and the use of a lead-lag study for determining the cash working capital allowance for Rate Base.

- The establishment of two new deferral accounts, one related to Broker activity, and one related to annual propane usage.

- An addition of $1,809,000 in bad debt expense and $500,000 of one time 1991 costs related to collection activities in the previously approved deferral account.

- The inclusion of a 12 month rate rider commencing January 1, 1992 in the amount of $2,028,697 related to 1991 TCPL toll increases.

- The increase in the fixed monthly charge for Brandon SGS customers from $9.00 to $10.00

- The institution of an optional Small General Service rate which would eliminate the fixed monthly charge in total.

A pre-hearing conference was held at the Board offices on July 30, 1991 and Order 112/91, dated July 31, 1991 established the procedures and timetables related to this application. Additionally, a technical conference, convened on August 8, 1991 was attended by interested parties to discuss, primarily, the change in normalization methodology, normal degree day calculations and the results of the lead-lag study.

A public hearing was held in Winnipeg, November 4 to 9 and November 12 and 13, 1991 and in Brandon, on November 14 and 15, 1991.

Subsequent to these hearings and prior to the Board issuing its order, the Company informed the Board that the Company had reached a tentative agreement with WGML related to a gas pricing dispute concerning upstream differential.

Upstream Differential

This upstream differential dispute arose in November of 1990 and was related to the calculation of the commodity cost of gas. WGML contended that the upstream differential toll, as approved by the National Energy Board, should be added to the weighted average 100% load factor price offered the four Ontario distributors in determining the commodity price payable by Centra. Centra contended that this upstream differential should not be added, as it was, in Centra's opinion, not expressly specified in their long term gas supply contracts with WGML.

In 1990, the Board approved rates which would recover commodity gas costs, including the upstream differential toll. Centra's original application for January 1, 1992 rates contained commodity gas costs, again including this toll. Although both the 1991 and 1992 rates recovered the gas costs to reflect WGML's position, Centra only rebated WGML gas costs excluding the disputed toll. The difference in gas costs was accumulated in a deferral account.

Under the terms of the settlement, Centra would pay WGML the entire disputed amount for the 1990/91 gas year, 66 2/3% of the amount for the 1991/92 gas year and 33 1/3% of the amount for the 1992/93 gas year. The impact of this settlement of the 1990 revenue requirement (to be recovered through the January, 1992 rates) was to reduce the revenue requirement by $2,376,298 from that requested by Centra in their original application. This resulted in a requested overall increase in revenue requirements of 1.55% compared to the 2.49% originally requested by Centra.

The Board approved January 1, 1992 rates which reflected the revenue requirement decrease from that originally applied for, but stated that the prudency of the terms of this settlement would be investigated at Centra's next general rate application.

Additionally, the 12 month rate rider for 1991 transportation toll increases would reduce from $2,028,697 to $1,734,907.

The Board issued Order 156/91 dated December 31, 1991, which addressed both the 1990 and the 1991 test year applications. With respect to the 1990 test year, the Board

confirmed as final the January 1, 1991 interim refundable rates. The Board did not approve the Company's request for the $826,842 rate rider related to decreased 1990 gas margins, concluding that, absent any methodology changes, and considering the overall financial status, the 1991 rates had generated sufficient revenues to cover 1990 costs, adjusted for known and measureables.

With respect to the 1991 test year, the Board approved the following:

- A rate base of $236,063,244 reflecting a reduction in the working capital allowance.

- A return on equity of 12.85% for rate setting purposes, resulting in an overall rate of return of 11.46%.

- An allowable range in return on equity from 12.60% to 13.10%.

- A revenue requirement from gas sales of $257,965,265, representing an overall required increase in revenues from gas sales of 0.96%.

The Board ordered the Company to refile its cost allocation study and new rates to reflect Board adjustments to the Company's request. The Company complied by a January 3, 1992 filing and on January 7, 1992 the Board issued Order 1/92 approving a schedule of rates to become effective January 1, 1992. These rates resulted in an average increase to the SGS class of 1.57% with an overall increase in revenues of 0.96%.

Burner-Tip Service

During the Brandon hearing, the Keystone Mechanical Contractor's Association requested that the Board order the Company to utilize the services of private contractors for delivering its "burner-tip" service in rural Manitoba. The Board did not approve this request, but noted that, as a part of the operational audit, this matter would be addressed by the Company's consultant. The Board stated that it would deal with this issue upon receipt of the results of the audit.

Fixed Monthly Charge

The increase in the fixed monthly charge for the Brandon Small General Service (SGS) customers was approved, but the request to institute a SGS rate which excluded a fixed monthly charge was denied.

The Company's rationale in structuring its SGS rates and Large General Service rates to include a fixed monthly charge is that certain ongoing costs must be recovered from each customer regardless of the volumes of gas consumed by that customer. These costs include operating expenses such as meter reading, bill processing and delivery, burner tip service, bad debt expenses, maintenance costs for a customer distribution main, service line, meter and house regulator and a portion of the Company's administrative expenses, including marketing and sales costs. The Company's position is also that return on investment, depreciation expense, and municipal taxes for its plant and for a portion of its distribution mains, and customer service lines, meters and regulators should be recovered by a fixed charge, as such minimum plant investment is required, regardless of consumption.

In its 1991 test year application the Company submitted that the total fixed costs for the SGS customer class (primarily residential) should be about $36.00 each per month. This customer class consists of approximately 213,850 customers of a total customer base of 222,500.

The major elements of the total fixed costs, on a per customer, per month basis for the SGS customer class are as follows:

1. Customer related costs (independent of consumption)

Operating expense	$ 6.45
Maintenance expense	$ 3.90
Administrative expense	$ 2.90
Return on minimum plant investment	$ 5.60
Depreciation expense and municipal tax on minimum plant	$ 4.75
	$23.60

2. Other fixed costs

Demand	$11.65
Income Tax	$ 2.00
Other Revenue	$(1.45)
	$12.20

The Board accepted that equitable rates should include a fixed monthly charge, currently set at $10.00 per month for the SGS customer. The Board considered that a straight commodity charge would result in some customers subsidizing costs imposed on the system by a low use customer who might, for example, use natural gas only for water heating.

The Board stated its intention to review the various cost components comprising the fixed monthly charge and to consider the appropriate level of this charge during the course of the next General Rate Application hearing.

EXPANSION OF FRANCHISE AREAS

On July 24, 1991 the Company applied to the Board for approval of:

- An amendment to the existing franchise agreement with the Rural Municipality of Rhineland and a new franchise agreement with the Village of Gretna. This expansion would allow for the provision of service to residents in Gretna and surrounding areas and to one major user, the Mennonite Brethren Collegiate in Gretna.

- An amendment to the existing franchise agreement with the Rural Municipality of Portage La Prairie and a new franchise agreement with the Rural Municipality of Carter. This expansion would provide service to Oakville and Elie, five Hutterite Colonies and, possibly, Campbell Mushroom Farms in Oakville.

The revenue to cost ratio for the Rhineland/Gretna franchise was estimated to be 0.73 at the end of the first year and 0.89 in the tenth year. The ratios for the Portage La Prairie/Cartier franchise were estimated to be .78 and .91, respectively. The total accumulated shortfall in revenues for both franchise areas was estimated to be $1,424,714 over 10 years. Such shortfalls would be made up by the system's other customers, currently numbering about 222,500.

A public hearing to review this application was held at the Board's office on July 27, 1991.

The Board issued Order 118/91 on August 16, 1991 which approved the application. The rates to be charged for service would be those approved by the Board from time to time. The Board concluded that the burden on existing customers created by these new

franchises would not be significant but an increase in number or size of future expansions could have considerable impact. Consequently, the Board ordered the Company to file a policy with respect to assessment of future franchise applications for the Board's review with the next General Rate Application.

The Company currently considers franchise applications on an ad-hoc basis, whereby projects having a revenue to cost ratio of less than 0.80 in the fifth year would not be proceeded with. The policy statement for future applications was to include:

- Specific criteria to assess the economic viability of future franchise applications.

- Recommendations on various means of harmonizing the new franchise revenue to cost ratios with the Company's overall revenue to cost ratio.

- Progress towards a marketing plan on an integrated area by area basis.

The Company informed the Board in a letter dated October 8, 1991 that it would not be able to file a copy of its expansion policy with its General Rate Application filing for January 1, 1992 rates.

DIRECT PURCHASE OF NATURAL GAS BY MANITOBA CONSUMERS

The deregulation of natural gas prices which commenced in 1985 was intended to create an environment that would enhance the possibilities for price and other conditions to be freely negotiated between buyers and sellers.

Except for certain large industrial consumers, other Manitoba consumers have not had an opportunity to participate in the deregulated gas market because of market, legislative and contractual constraints.

In June of 1991, the Board received an application from a Broker seeking permission under Section 114 of The Manitoba Public Utilities Board Act to sell gas in Manitoba. The Board decided that a generic hearing to investigate this matter would be in the public interest. The Board developed a list of issues to be addressed at the hearing and circulated this list to interested parties.

The issues to be discussed were:

- Core Market Definition
- Security of Supply
- Backstopping
- Load Balancing & Costs
- Other Incremental Costs
- Long Term Supply Contracts
- Peaking Supply
- Contracts and Approvals
- Financial Integrity and Licensing of Brokers
- Financial Onus of Brokers Regarding Unpaid Centra Accounts
- Board Jurisdiction

A public hearing was held in Winnipeg from July 16 to July 18, 1991 to consider the positions of the various participants, as well as information on practices in other jurisdictions. The hearing was attended by nine potential Brokers, Company officials and representatives of industrial, commercial and residential consumers, various cities and towns, municipal, Provincial and Federal governments, natural gas producer associations and academics.

The Board, in Order 119/91 dated September 3, 1991, concluded that all classes of customers should be allowed to participate in the direct purchase of natural gas at their own risk.

Specifically, the Board ordered that:

(1) All classes of customers may participate in the direct purchase of natural gas at their own risk.

(2) For the purpose of minimum supply requirement core market customers be defined as residential and commercial users requiring natural gas primarily for space heating, with no capability to switch to an alternate fuel source.

(3) Contracts between Centra and any Broker shall include, inter alia that:

a) Brokers shall be required to have a gas supply portfolio for core customers with a minimum two year rolling term and related transportation arrangements, and daily deliverability assurances.

b) Firm gas supply contracts shall have associated firm transportation arrangements on intra provincial pipelines.

c) The laws of the Province of Manitoba shall govern.

d) All customers using direct purchase agreements shall be advised of the terms and conditions set forth in the Centra/Broker contract and shall be given a copy of the "A GUIDE TO THE PURCHASE OF NATURAL GAS IN MANITOBA" pamphlet by the Broker, a copy of which is attached hereto and marked as Schedule "A" to this Order.

e) Brokers shall be required to obtain from their customers an assignment in favour of and exercisable by Centra of any rebate due that Broker's customer, should that customer be 90 days or more in arrears in payment of its account with Centra.

(4) Any Broker who participates in a direct purchase arrangement for the sale of natural gas in Manitoba must apply for registration with the Board by paying an initial registration fee, presently $500.00, and thereafter an annual renewal fee, presently $100.00, providing the following information:

- name of Broker;
- address of Broker;
- phone numbers of Broker;
- name of Manitoba contact;
- list of Board of Directors/Partners/Owners;
- copy of Certificate of Status for Corporation to carry on business in Manitoba;
- copy of licenses to conduct business in Manitoba;
- copy of typical contracts with end-users of natural gas, with proprietary information deleted.

(5) As a condition of registration, all Brokers who have previously entered into contracts (prior to September 3, 1991) with potential customers will be required to file an affidavit with the Board confirming that:

a) The Broker has advised all those customers in writing that neither the Board nor Centra make or imply any guarantee of gas supply if the Broker's supply fails or when the customer's contract with the Broker expires;

b) All customers have been advised of the terms and conditions set forth in the Centra/Broker contract;

c) All customers have been given a copy of the pamphlet entitled "A Guide to the Direct Purchase of Natural Gas in Manitoba".

d) All customers have been given the opportunity to ratify, renegotiate or cancel any existing contract with the Broker.

(6) The registration year for Brokers shall commence November 1st. Applications for renewal shall be made by September 30.

(7) After receiving notification of registration from the Board, a Broker shall be permitted to participate in any direct purchase arrangement including a Western Buy/Sell arrangement. Centra shall charge the customer rates as approved by the Board, and any subsequent rebate to the customer is a contractual matter between the customer and the Broker.

(8) All Brokers shall advise all their customers, in writing, that neither the Board nor Centra make or imply any guarantee of gas supply if the Broker's supply fails or when the customer's contract with the Broker expires.

(9) Centra shall assume the responsibility for backstopping any Broker's supply failure, as a supplier of last resort on a best efforts basis. Any additional costs incurred for gas by Centra in providing backstopping to a direct purchaser shall be borne by that direct purchaser.

(10) Centra shall assume responsibility for load balancing and for all peaking supplies until a further Order of the Board.

(11) Presently existing City Gate Buy/Sell arrangements and T-Service arrangements shall continue at rates as approved by the Board from time to time.

(12) Centra shall notify their customers of the potential risks and benefits of the direct purchase of natural gas in a form to be approved by the Board.

On October 16, 1991 the Board issued Order 138/91 which approved the form of the Company's notice to its consumers informing them of the potential risks and benefits of the direct purchase of natural gas.

On November 19, 1991 the Board issued Order 146/91 approving, in generic form, the Contract which a Broker would be required to enter into with the Company for the direct purchase of natural gas.

Subsequent to the issuance of Order 146/91 and pursuant to Order 119/91, the Board registered nine Brokers as of December 31, 1991.

By December 31, 1991, the Company had received requests from Brokers to distribute gas for 5,500 customers. The Company processed 4,200 of these requests. The initial flow of gas under these agreements occurred on January 9, 1992. The total annual reduction in operating demand volumes for the 4,200 requests amounted to 923.7 $10^9 m^3$ or 10.9% of the Company's total annual operating demand volumes.

As of December 31, 1991 the Company had, in addition to Simplot Chemical Company, 11 firm T-Service customers, 9 Interruptible T-Service customers and 1 City Gate Buy/Sell customer.

In the fall of 1991 the Board received approximately 1200 telephone calls respecting the activity of Brokers. The majority of these were of the nature of enquiries respecting confirmation of information provided by Brokers or their agents, respecting deregulation in general and respecting the involvement/obligations in the process of Brokers and Centra.

Some complaints were received respecting high-pressure sales practices and misrepresentation. These were all dealt with by the Board and in most instances, such concerns resulted in a cancellation of the contract for the complainant.

The Board has had several meetings with Brokers respecting matters ranging from jurisdiction of the Board to sales practices, and has had discussions with Centra. The Board is monitoring all related activities and may, if necessary, convene a public hearing in 1992 to review the direct purchasing activity to date.

LONG TERM STORAGE ARRANGEMENTS

In 1988 the Company entered into a 15 year gas supply contract with WGML and a transportation operating agreement with TCPL. For the first 5 years of these arrangements, the commodity cost of gas for Manitoba was to be the weighted average 100% load factor[1] price paid to WGML or TCPL by Ontario distributors. The Board approved the rates flowing from these contracts but did not approve the contract as it felt it did not have a responsibility to do so. However, after 1993 and pursuant to the Company's contract, the Company's 53% load factor would be recognized in establishing the price of gas to the majority of Manitoba's market. The impact of this low load factor would cause the annual cost of gas for the Company to increase by some $28,000,000.

The Company immediately began to explore ways to mitigate the anticipated cost due to its low load factor. On June 27, 1991, the Company informed the Board that U.S. long term storage arrangements had been put in place through negotiations rather than through tendering arrangements. It had reached a tentative agreement with ANR Pipeline Company (U.S. Company) respecting storage arrangements which would improve the Company's load factor to about 90%. The Company indicated that the cost of these storage arrangements would be significantly less than the $28,000,000 impact of the WGML contract.

On June 28, 1991, the Board indicated to the Company that in the public interest, the Company should tender for storage arrangements. The Board also stated that, in the event the Company wished to speak to this matter, the Board would be prepared to hold a public hearing to review its decision but would not judge the prudence of the Company's final storage arrangements at such a hearing.

The Company advised the Board that it wished to conclude the agreement with ANR without implementing a request for proposals (tendering process). The Company therefore requested that the Board convene a public hearing:

- to review the steps undertaken by the Company to mitigate against the costs to the Company which would otherwise arise under existing arrangements; and

[1]Load Factor - Average daily consumption in one year divided by maximum day consumption in that year.

- to make a finding as to the reasonableness and prudence of the process followed by the Company.

It was not the intention of the Company to request the Board to make a finding of prudence on the terms of the arrangements chosen to mitigate the impact.

A public hearing to review the Company's actions in this regard was held in Winnipeg on October 10 and 11, 1991.

In Order 149/91 the Board concluded that the Company was prudent and reasonable in the steps it undertook to evaluate its options to mitigate the potential cost increases to the point where it was determined that downstream storage was the most beneficial. The Board found that the Company's process leading up to the agreement with ANR Pipeline Company was reasonable and prudent.

SERVICE DISCONNECTION AND RECONNECTION

Pursuant to The Public Utilities Board Act, Centra Gas applied to the Board for approval of its policy and procedures governing the disconnection and reconnection of service for non-payment. These were approved in Order No. 96/91 dated July 5, 1991.

In accordance with its policy and procedures Centra Gas disconnected 408 residential customers prior to October 1, 1991. All of these accounts were reviewed by Board staff and the Board to ensure such disconnection complied with the legislation and the Board's Order. The following table sets out this review process.

Total residential customers disconnected	408
Residential customers reconnected (customer initiative)	226
Residential customers reconnected (Board initiative)	145
Residential premises not reconnected	
Alternate heat	5
Vacant	32
Appeal decisions	
Allowed	2
Denied	1

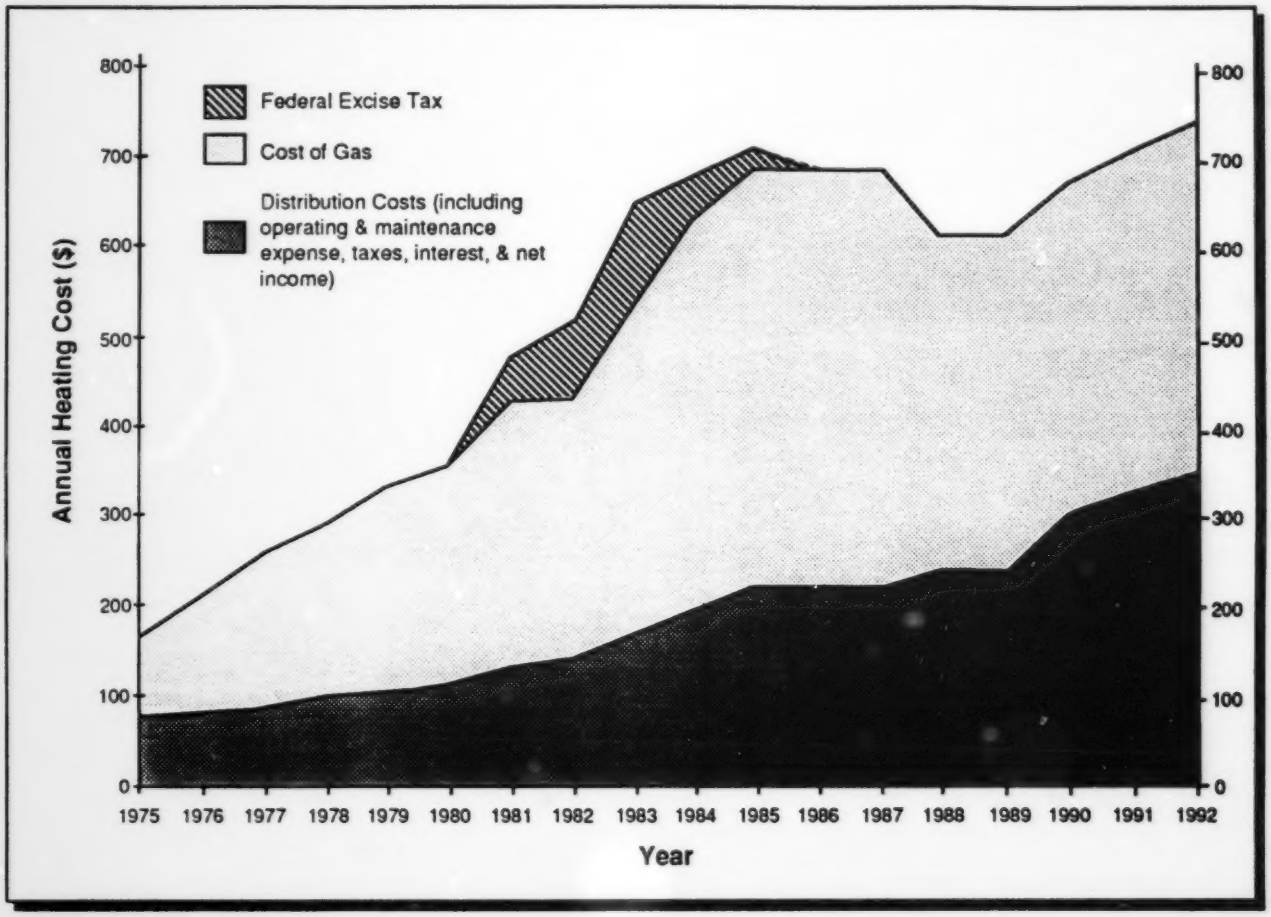
Customer initiated reconnections involve customers who make their own arrangements to pay Centra. Board initiated reconnections involve customers who have called the Board and who, upon Board staff enquiry, have service restored as a result of either having the customer speak directly to a Centra supervisor or by having Board staff discuss the matter with Centra directly.

Where Centra and the customer reach an impasse the matter is referred to the Board by way of an appeal. In two cases payment arrangements were determined by the Board. In one case the appeal was denied as, in the Board's opinion, the customer had the resources to pay but was refusing on the basis that he did not reside at the premises. The applicant subsequently made satisfactory payment arrangements with Centra and service was restored.

OTHER

The following Figures 1 to 5 inclusively provide a graphic representation of the financial statistics related to Centra Gas and the annual heating costs. The graphics do not reflect discounts provided by a customer's direct purchase arrangement.

FIGURE 1

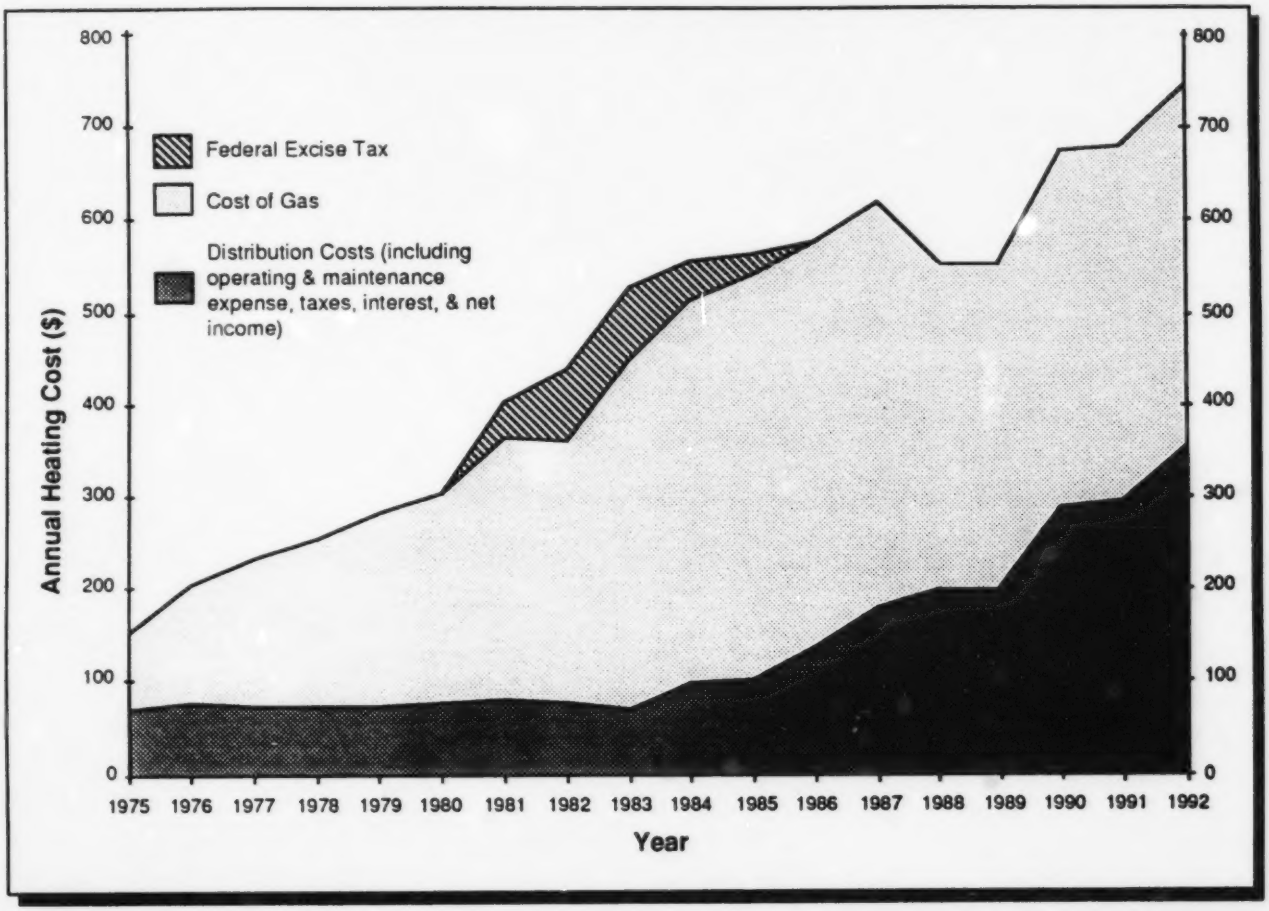


ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

Centra Gas Manitoba Inc.—Other Divisions

Based on usage of 3,711 m^3 /year, which represents only space heating. Hot water heating is not included. Due to conservation effects, space heating consumption has declined from 4,057 m^3 /year in 1975. At January 1, 1991 rates, 4,054 m^3 would cost $764.

FIGURE 2



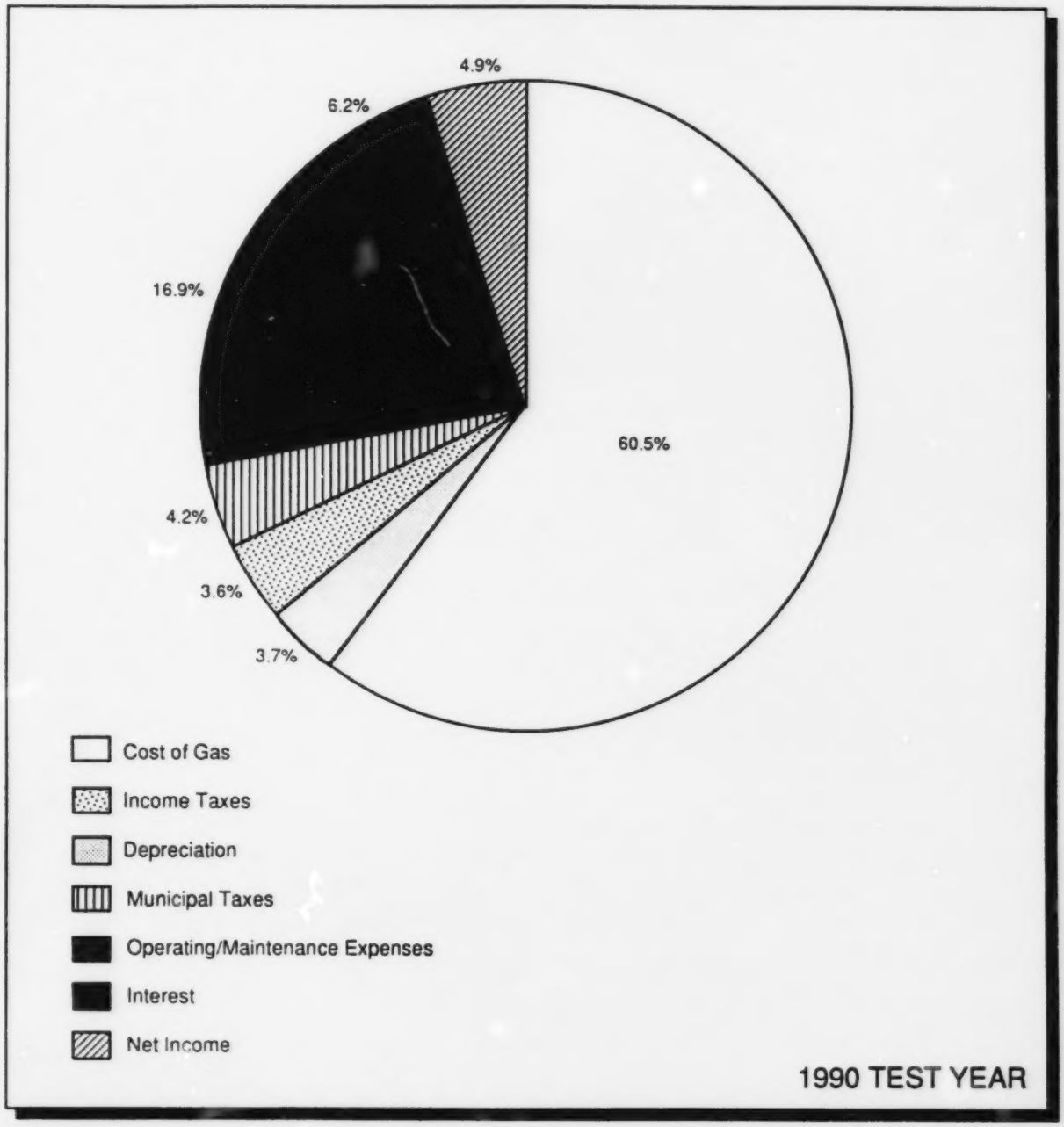
ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

Centra Gas Manitoba Inc.
Brandon Division

(Includes Brandon, Forrest, R.M. of Cornwallis, R.M. of Elton, and R.M. of Odanah)

Based on Usage of 3,711 m^3/year

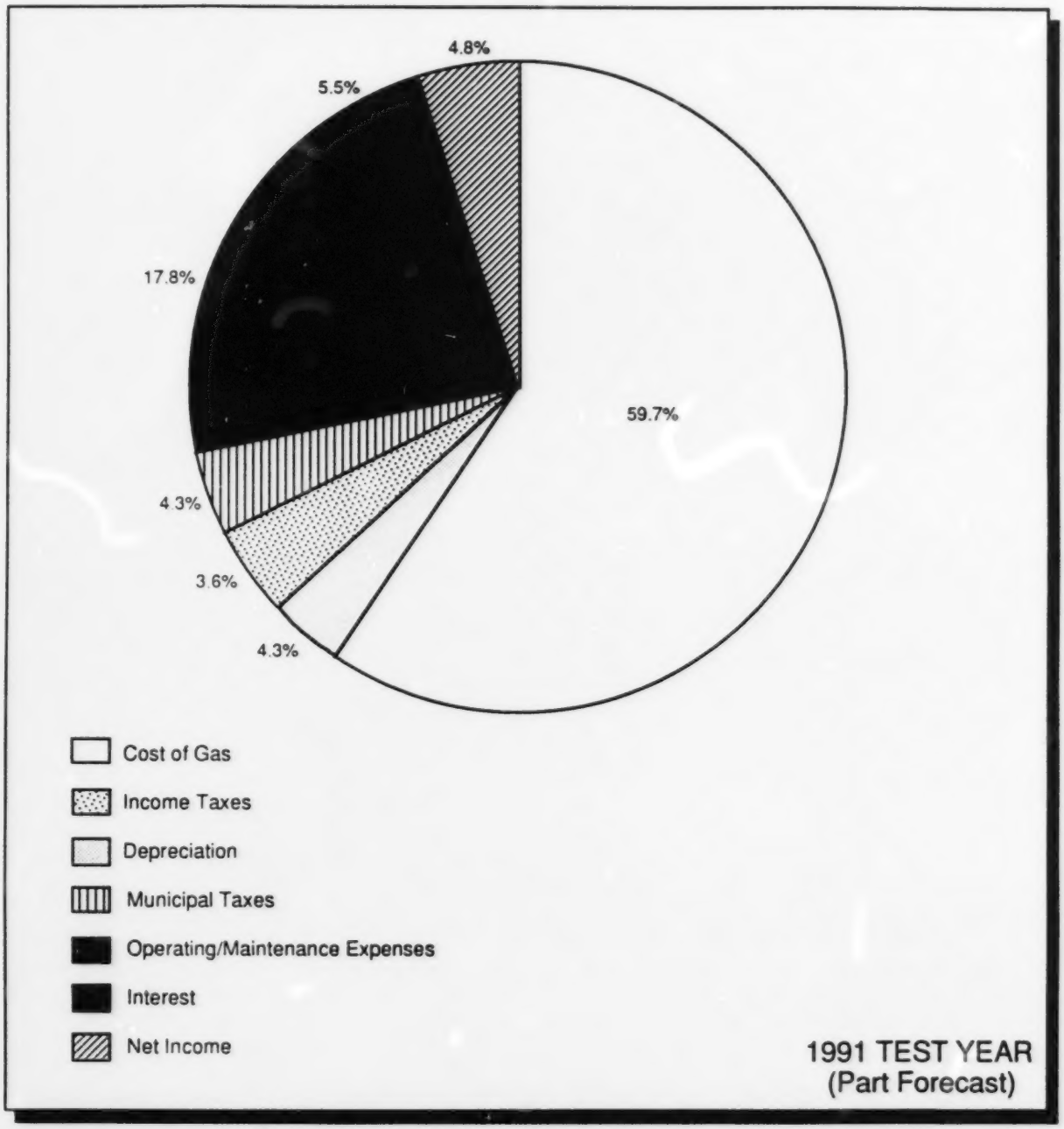
FIGURE 3



DISTRIBUTION OF GAS UTILITY REVENUE
Centra Gas Manitoba Inc.

Cost of gas includes TransCanada Pipelines Limited transportation tolls, Federal and Alberta government taxes, royalties, and gathering system and producer costs

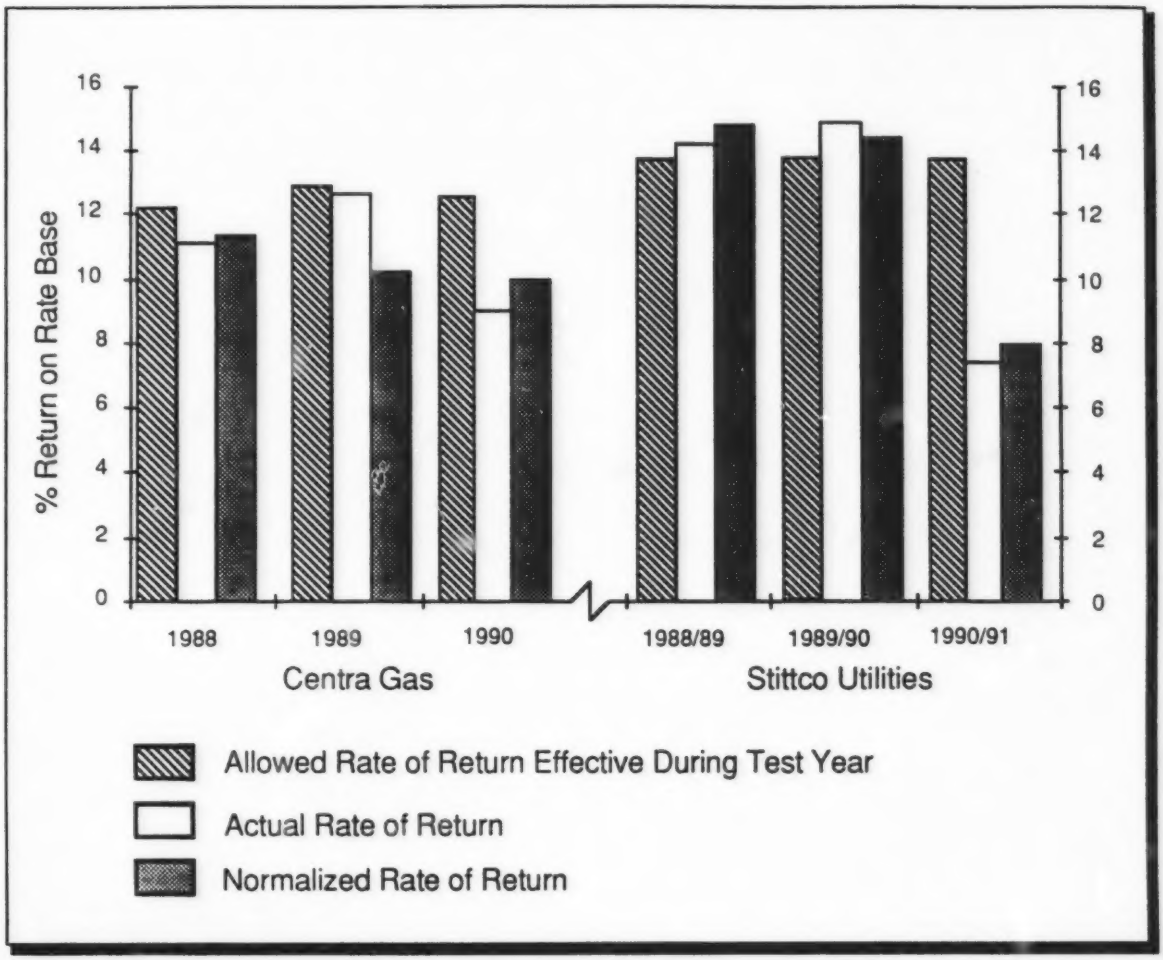
FIGURE 4



DISTRIBUTION OF GAS UTILITY REVENUE
Centra Gas Manitoba Inc.

Cost of gas includes TransCanada Pipelines Limited transportation tolls, Federal and Alberta government taxes, royalties, and gathering system and producer costs

FIGURE 5



OVERALL RATE OF RETURN ON RATE BASE
for
Centra Gas Manitoba Inc.
and
Stittco Utilities Man. Ltd.

NOTE: Overall rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base—i.e., investment in property, Plant and equipment.

Centra Gas
Manitoba Inc.

Centra Gas

NATURAL GAS FRANCHISE AREAS
DISTRICT BOUNDARIES
TCPL MAIN TRANSMISSION LINES
TRANSMISSION AND DISTRIBUTION LINES
ODORANT STATION LOCATIONS

RIDING MOUNTAIN NATIONAL PARK
MINNEDOSA
MOORE PARK
OO-ZA-WE-KWUN
RIVERS
MINIOTA
HAMIOTA
McAULEY
TCPL MAIN
BRAN
SHILO
ASSINIBOINE RIVER
SOURIS RIVER
CANADA
USA
LAKE MANITOBA
PORTAGE LA PRAIRIE
MACGREGOR
ST.CLAUDE
ELM CREEK
CARMAN
MORRIS
MORDEN
PLUM COULEE
ST. JEAN BAPTISTE
ST. PIERRE
LAKE WINNIPEG
WINNIPEG BEACH
TCPL MAIN
SPRAGUE
CANADA
U.S.A.

Approximate Scale in km
5 0 5 10 15 20 25 30 35 40 45

DATE JANUARY/92

PROPANE GAS DISTRIBUTION UTILITIES

STITTCO UTILITIES (MAN) LTD.

The Company's sales rates which went into effect on November 15, 1990 were based, in part, on a variable product pricing agreement which used the average Edmonton spot price for propane for four major producers. This agreement was for a one year period ending September 30, 1991. While the spot market price was $183.10 per cubic meter F.O.B. Thompson in October, 1990, the Company requested and the Board approved rates which were based on a product price of $166.10 per cubic meter, due to the extreme volatility of propane prices. The Board also directed the Company to establish a variance account to accumulate the difference between the $166.10 per cubic meter price and the average Edmonton spot price. Rates were to be adjusted, from time to time, to refund overages or collect shortfalls in this variance account.

On December 31, 1990 the Company applied to the Board for a change in its Domestic and Commercial Rates as a result of the elimination of the Federal Sales Tax on propane, coincident with the imposition of the Goods and Services Tax. The Board considered this application on an Interim Ex Parte basis and approved new interim rates, effective January 1, 1991, in Order 1/91, dated January 14, 1991. These interim rates resulted in a decrease of 0.84% for the average domestic consumer and a decrease of 0.82% for the average commercial consumer.

On February 4, 1991, the Company applied to the Board for a change in its Domestic and Commercial Rates because of a significant decrease in the product cost of propane from the $166.10 per cubic meter, F.O.B. Thompson reflected in the existing rates. Without any immediate rate reduction, the accumulated amount in the propane cost variance account would have been in excess of $175,000 by May 31, 1991. In Interim Ex Parte Order 9/91, dated February 15, 1991 the Board approved Domestic and Commercial Rates to replace those contained in Order 1/91, based on a revised propane product cost of $126.10 per cubic meter, F.O.B. Thompson, effective February 1, 1991. The Board also instructed the Company to continue to accumulate the difference between the product price of $126.10 per cubic meter and the actual average Edmonton spot price in the propane cost variance account. The revised rates resulted in a decrease of 14.1% and 13.8% for the Domestic Service class and Commercial Service class, respectively.

On August 22, 1991, the Company applied to the Board for an Order determining Rate Base, Rate of Return and Rates based on a 1990/91 mid-year historic test period (ending July 31, 1991), confirmation of four Interim Ex Parte Orders (102/87, 162/90, 1/91 and 9/91) primarily related to changes in propane product costs, and for an Order approving a "least cost" hearing process for future rate applications.

In its application, as subsequently revised, the Company requested approval for:

- A 1990/91 mid-year net utility plant of $1,183,613 and a working capital allowance of $395,055 for a total mid-year rate base of $1,578,668.

- A rate of return on rate base of 14.00%, an increase of 0.25% from the 13.75% currently allowed.

- A propane product cost of $119.00 per cubic meter F.O.B. Thompson, on a fixed price basis, from August 1, 1991 to July 31, 1992.

- A revenue requirement from propane sales of $2,785,855.

- New rates for the Domestic Service Class and the Commercial Service Class, effective October 1, 1991, based on a cost allocation study. These requested rates would result in increases of 9.0% and 3.4% for the Domestic Service Class and the Commercial Service Class, respectively, or an overall increase in rates of 5.4%.

- The refund of the balance in the propane cost variance account of $68,187, plus accrued interest, equalling $0.01 per litre (liquid) commencing October 1, 1991. The monies would be fully refunded by March 31, 1992.

Following a review of this Application and the public hearing held in Thompson, Manitoba on September 19, 1991, the Board, in Order 139/91, dated October 16, 1991, allowed a mid-year rate base of $1,664,270, comprised of net utility plant of $1,183,613 and a working capital allowance of $480,657. The Board ordered the Company to change its method of accounting for conditional sales contracts (primarily for medium and high efficiency furnace sales) so as to include financing costs in the working capital component of Rate Base and to include related revenues as a part of other income. The result of this change was a slight increase in revenue requirement for this Application.

The Board did not allow an increase in the rate of return, now approved at 13.75% and approved a normalized and annualized revenue requirement from propane sales of $2,746,700.

The Company tendered for its annual propane supply, for a one year period from August 1, 1991 to July 31, 1992. The lowest tender, at a fixed rate of $119.00 per cubic meter, F.O.B. Thompson, was received from the parent company, Stittco Energy Limited. The Board accepted this fixed propane cost for rate setting purposes.

The Board approved the Company's proposed rate structure and ordered the Company to refile rate schedules to reflect the revenue requirement of $2,746,700 and revenue to cost ratios of 0.80 for the Domestic Service Class and 1.196 for the Commercial Service Class, compared to the existing ratios of 0.76 and 1.22, respectively. The Board expressed a desire to see this revenue to cost ratio range move closer to 1.0 for all customer classes over a period of time. The Company refiled and the Board approved new Rate Schedules in Order 143/91, dated October 25, 1991. These rates resulted in an overall increase of 3.9% over existing rates; 8.7% for the Domestic Service Class and 1.2% for the Commercial Service Class.

The Board also approved the Company's request to refund the propane cost variance account in the amount of $68,187, with appropriate interest, to its customers, and further instructed the Company to keep the Board informed of the status of this account until the outstanding balance had been fully refunded.

The Board confirmed Interim Ex Parte Orders 102/87, 162/90, 1/91 and 9/91.

Because the cost to the Company and ultimately the ratepayer for a comprehensive general rate application is in the order of $65,000 which significantly impacts on the Company's small customer base (1642 in 1991), the Company requested that the Board approve a "least cost hearing process". The Company estimated that such a process would eliminate approximately $50,000 in hearing costs.

This matter was considered very carefully by the Board as any "least cost hearing process" must always provide the ratepayer an opportunity to be heard. An amended process for future rate applications was approved (as outlined below) which, in the Board's opinion, maintain this right and further allows for savings in rate review costs. The Board reserved the right, and the Company acknowledged this right, to amend, vary or cancel this procedure at any time.

Step No. 1

The Company will file with the Board, in written form, an application together with all of its sworn evidence in support of an application. Included in this application will be the proposed rates for which the Company is seeking approval.

Step No. 2

The Company will notify all of its customers and franchisees of the proposed rate increases by way of a notice in a form approved by the Board. This notice will invite the customers and franchisees to provide written submissions in respect of the application by the Company, or any part of it, whether in opposition or in support. Additionally, the Board will publish a notice advising the consuming public that unless objection is raised, the Board will consider the application by the Company without an oral public hearing and on such terms as specified by the Board.

Step No. 3

The Board will review the material and conduct such information requests as it believes are required. Any intervenors will be included in the information request proceedings.

Step No. 4

After the information request procedure and written submissions from the consuming public have been received and considered, the Board, in its sole discretion, shall decide whether an issue has been raised such that an oral public hearing is required.

Step No. 5

In the event no opposition is filed, or, in the alternative, no opposition is filed which request reference to an oral public hearing, the Board will issue a final determination and order in respect of the application.

Step No. 6

The Company will then notify all of its customers and franchisees of the decision of the Board in a form to be approved by the Board.

The Board also required the Company to file, on an annual basis, the following schedules in conjunction with the filing of its audited financial statements to assist the Board in its duties of monitoring the Company:

a) Revenue Requirement
b) Rate Base
c) Plant and Depreciation Continuity Schedules
d) Calculation of Actual and Normalized Rates of Return
e) Working Capital
f) Income Tax Calculation
g) Summary of Operating Costs
h) Normalized Sales and Purchases
i) Details of Annual Propane Purchases

THE GAS PIPE LINE ACT

The Gas Pipe Line Act, enacted in Manitoba in 1956, is an Act to provide for the regulation of the construction and operation of Gas Pipe Lines, including gas distribution systems. The Act is administered by the Board and primarily deals with all safety related matters associated with the distribution of natural gas and propane within Manitoba.

The Safety Subcommittee of the Board was established to review and monitor incidents which fall under the jurisdiction of the Act. The Safety Subcommittee, through its Engineering Advisors, spot check the utilities' construction and installation procedures, review construction plans and witness stand-up and hydrostatic pressure tests on distribution system pipeline and components to ensure integrity of the system. The Board also investigates unusual occurrences such as pipeline damages, explosions and fires and provides recommendations as required to prevent a recurrence.

Centra Gas Manitoba Inc. has embarked on an extensive distribution system upgrading program including service line and component replacements and removal. The Board also conducts spot checks of the system betterment program to ensure the upgrading met the minimum requirements of the Canadian Standards Association (CSA) Standards.

The Safety Subcommittee have conducted numerous meetings with excavation contractors, the City of Winnipeg, and other utilities to discuss gas pipeline damages and construction procedures. Manitoba Regulation 377/88R being a regulation under The Gas Pipe Line Act respecting safety measures is being reviewed by the Board for clarity and for its effectiveness in preventing gas pipeline damages.

The Board is represented on the CSA Technical Committee and Advisory Council on Oil and Gas Pipeline Systems by its Engineering Advisors and the Chairman of the Safety Subcommittee respectively. The CSA develop guidelines outlining the minimum standards for the design, construction, and operation of oil and gas pipelines operating in Canada.

Pursuant to this Act, the Board also monitors the operation of propane distribution systems in Thompson, Flin Flon and Snow Lake, owned by Stittco Utilities Manitoba Ltd., and in Churchill owned by The Manitoba Housing and Renewal Corporation.

MANITOBA TELEPHONE SYSTEM

In 1991, the Board held three public hearings to review applications of the Manitoba Telephone System (the System), issued 9 Interim Ex Parte Order and confirmed 34 previously approved Interim Ex Parte Orders. There were 16 final Orders for individual exchange tariffs, cost awards and rates, including those flowing from previous decisions.

The Board heard four major applications in 1991 and a summary of these applications and the Board's decision is noted hereunder:

1. **The General Rate Application was dealt with by the Board in Order No. 93/91 dated July 24, 1991.**

The System applied to the Board for an Order approving rate increases to be effective July 1, 1991 and July 1, 1992 and confirming certain interim ex parte orders issued by the Board earlier. This application was heard by the Board on April 22 to 26 and April 29, 1991 in Winnipeg and in Thompson and Flin Flon on June 6, 1991, in Dauphin on June 7, 1991 and in Brandon on June 10, 1991.

The following table sets out the System's projected net earnings and debt ratios for 1991 and 1992 without and with the requested rate increases.

	Projected Net Earnings ($ million)	
	Without	With
1991	$19.1	$22.5
1992	$ 5.4	$19.2
	Debt Ratios	
1991	81.3%	81.0%
1992	82.2%	80.6%

The System stated that the requested rate increases were necessary to meet its four financial objectives which are to reduce the debt ratio, fund the pension liability, increase the debt coverage ratio and increase the revenues received from the Revenue Settlement Plan.

The Board noted that the System's debt ratio in 1987 was 91.0% and if the rate increases were approved the debt ratio would decrease to 80.6% in 1992. The System's debt coverage for the same period would increase from 0.8 in 1987 to 1.2 in 1992.

In support of its request for improvements in these ratios the System stated that it needs to position itself to meet the demands of a changing marketplace and increase the System's ability to meet interest payments. The System stated that its balance sheet is too highly leveraged for a more competitive environment.

In its decision, the Board, recognizing that the System had made considerable gains in reducing its debt ratio and debt coverage ratio, that it continues to meet its pension funding obligations, that the degree of the impact of competition is still uncertain at this time and recognizing that the customers as well as MTS were in the midst of a recession, determined that some rate relief should be granted. The Board stated that the System will need to manage its physical, human and financial resources more economically and efficiently in order to deal with the future competitive losses and to minimize future rate increases. In the Board's view, the System should not expect to maintain its status quo in a competitive environment solely through rate increases to monopoly subscribers. Accordingly, the System's application was reduced as follows:

		Requested	Allowed
a)	Residence Main Line - Enhanced (Touch Tone)	4.5%	1.5%
b)	Residence Main Line - Regular (Rotary Dial)	4.5%	1.5%
c)	Residence Customer Calling	4.5%	1.5%
d)	Residence Directory Listing	4.6%	1.5%
e)	Business Main Single Line	4.5%	1.5%
f)	Touch Tone Line Premium	4.5%	1.5%
g)	Business Custom Calling	4.8%	1.5%
h)	Business Directory Listing	4.4%	1.5%
i)	Multiline Trunks	4.5%	1.5%
j)	Multiline Other	0.2%	0.2%
k)	Centrex Main	0.9%	0.9%
l)	Centrex Other	0.7%	0.7%
m)	Local Private Line	19.6%	19.6%
n)	Service Charge	4.5%	1.5%
o)	Local Directory Assistance	4.4%	1.5%

On an annualized basis, the Board's decision will reduce the System's 1991 requested revenues by $4.8 Million. On a fiscal year basis; the Board's decision will reduce the System's net earnings for the year ended December 31, 1991 by an estimated $2.4 Million from the requested $22.5 Million to $20.1 Million, excluding the Revenue Settlement Plan impact.

The Board approved other matters in the General Rate Application, namely:

a) An increase in intra provincial toll service rates of 1¢ per minute across all mileage bands. The requested 1¢ increase in the message set-up charge and the 4.5% increase in operator surcharges was denied.

b) A restructuring of the intra provincial WATS rate restructuring.

The Board did not approve of the System's proposed rate increase for 1993. The Board expressed some concern regarding the reliability of the System's financial forecasting, and expressed a need for a more sophisticated approach to revenue forecasting in light of the complexity of the industry and the many factors that influence the System's revenue generating capabilities. The Board further noted that there will be significant pressure on the System to aggressively reduce future costs and when all of these issues are considered together it would be inappropriate, at the present time, to approve a multiple year rate application.

2. **The Application for Confirmation of Interim Ex Parte Order No. 175/90 approving tariff rates and terms and conditions to permit:**

a) **Private line interconnection; and**

b) **The introduction and attachment of customer provided business terminal equipment was dealt with by the Board in Order No. 91/91 dated July 15, 1991.**

This application was heard by the Board in conjunction with the Manitoba Telephone System's 1991 General Rate Application and was dealt with specifically at the public hearing on April 24, 1991. The following questions reflect the four main issues related to this application:

(i) Does Order-in-Council 1068 permit the Interconnection of Switched Data Service?

(ii) Does the Order-in-Council restrict Interconnection to Unitel and Telesat?

(iii) Are the rates for Interconnect fair and reasonable?

(iv) Is the Type C connection charge necessary and if so is it fair and reasonable?

With respect to the first two questions, the Board agreed that the System's interpretation of interconnection for private line facilities does not include switched data services. The Board noted that its decision was based on the strict meaning of private line facilities and that if it was the intention of the Province of Manitoba to broaden the scope of interconnection of private line facilities to include switched data services then the Board presumes that the Order-in-Council 1068 will be amended accordingly. The Board further determined that interconnection was not restricted to Unitel and Telesat alone. With respect to whether the rates for interconnect were fair and reasonable the only evidence that was filed in which the Board could base its decision related to the comparability of rates in other jurisdictions and the System's projected revenue losses. With respect to comparability, the Board, did not feel that this fact alone should dictate the rates approved by the Board. The System indicated that the level of contribution provided by Type A, B and C charges were modest and were not fully compensatory for the revenue lost due to interconnection.

The dilemma faced by the Board was to determine the appropriate amount of compensation based on the limited evidence. It noted that accepting the evidence of the System would result in a level of contribution that the System believes is modest; however the Board presumed it would provide adequate contribution toward basic services. To accept the view of Unitel would result in lower rates; however the Board was of the opinion that disregarding the System's evidence may result in less than adequate contribution toward basic services.

In the Board's view the public interest required it to approve the rates proposed by the System. The Board required the System to track the revenue loss due to interconnection and the revenue generated by Types A, B, and C charges for further review at some future date. With respect to the Type C connection charge, the Board noted the System's statement that the proposed rates for Types A and B or C connection do not relate to the cost of service but were designed to provide for contribution revenue loss due to interconnect. Unitel argued that the Type C charge could not be justified because, by definition, a Type C connection precludes access to the public switch telephone network. Unitel stated the System is the only teleco that charges for a Type C connection. In reviewing this matter the Board accepted the System's rate design was intended to recover revenue losses as a result of interconnect. This rate design included charges for Type A, B and C interconnections as a package. In recognition of this rating philosophy and the Board's earlier comments the Board determined that the rates for Type A, B and C interconnection were both fair and reasonable at this time.

Effective February 1, 1991 Order-in-Council 1067 and 1110 authorized the attachment of customer provided business terminal equipment consisting of telephone sets, centrex systems, Key and PBX systems as well as inside station wiring to the network of the System. As a result of such interconnection the Board authorized the relocation of those items from the regulated General Tariff to the destandardized tariff section. Accordingly the rates of such equipment will no longer be approved by the Board. The Board noted however that if it turns out that in the future a competitive market has not been adequately established the Board will review and reconsider the matter. If the Board is satisfied the competition does in fact exist, the Board will forebear from actively regulating such items and accordingly will allow the marketplace to determine what rates are fair and equitable.

3. **The Community Calling Service Program Application was dealt with by the Board in Order No. 92/91 dated July 15, 1991.**

The System filed an application with the Board requesting an Order approving certain modifications to the System's Community Calling Service (CCS) program, together with revised rates. Hearings were held in Winnipeg on June 3 to 5, 1991, in Thompson and Flin Flon on June 6, 1991, in Dauphin on June 7, 1991 and in Brandon on June 10, 1991.

The CCS program was initially proposed during the 1989 general rate application as part of the System's Rural Service Improvement Program and was approved by Board Orders No. 41/89 and 18/90. In November 1990, as a result of an unusual number of complaints from CCS recipients, the System suspended further implementation of the program and undertook a review and re-examination of the entire program. Following the review the System determined that the CCS program offers the level of service desired by its subscribers and that previous subscriber dissatisfaction was related to rates to be charged and to certain Northern adjacent exchanges. As a result, the System applied to the Board for approval of the following revised rates and modifications to the CCS program:

a) Elimination of 22 CCS cross sections (adjacent exchanges) in Northern Manitoba including the Flin Flon - Snow Lake cross-section.

b) Modification of rates to be charged for the CCS program by spreading recovery of the program's revenue requirements over 9 years instead of 6 years and by recovering the revenue from a broader base of subscribers. Thirty-three percent of the program cost will be paid for by Extended Area Service (EAS) and CCS subscribers. Four percent will be paid for by Winnipeg subscribers through a proposed one-time 10 cent/month increase in Winnipeg basic rates. The remaining 63% of the program cost will come from the general rate base and future general rate increases.

c) For 1991, the CCS rate increases for residence subscribers will vary from $0.10 to $0.15 per month. 1991 CCS rate increases for business subscribers will vary from $0.10 to $0.70 per month. The System proposes to apply similar increases on an annual basis through to 1999. The cumulative increase for residence subscribers through to 1999 will vary between $0.85 and $1.70 per month. For business subscribers, the cumulative increase to 1999 will vary between $0.90 and $7.75 per month. These rate increases will be in addition to the rate group reclassification charge applied when subscribers move into a higher rate group.

d) Application of CCS rates to subscribers currently receiving toll-free calling to neighbouring exchanges under Extended Area Service (EAS).

e) Exemption from CCS rate increases for subscribers in Rate Groups 1 and 2 if the additional access provided by EAS and CCS is insufficient to reclassify the exchange to a Rate Group 3 or higher exchange. Rate Group 3 has more than 751 telephones.

The Board heard from a significant number of subscribers both in writing and in presentations made at the public hearings and was satisfied that the proposed level of service reflected in the existing CCS program should be confirmed. The Board also heard that the revised rate structure was more acceptable to the majority of subscribers.

Accordingly, the Board approved the System's application as it appeared to represent a fair balance between the obligation of subscribers to make a contribution towards the cost of service improvements and the need to keep rates for that service at reasonable and affordable levels. The Board rejected the proposal put forth by Citizens Opposing Non-Equitable Charges for Telephone Services (CONECTS) that the CCS rates should be abolished with the resulting lost revenue to be recovered over the entire subscriber base. In the Board's view Winnipeg subscribers would be required to pay a disproportionate share of the costs of the CCS program under the CONECTS proposal.

The Board concurred with the position of Consumers Association of Canada (Manitoba)/Manitoba Society of Seniors (CAC/MSOS) that the revised formula for funding CCS represents a reasonable application of the System's rating objectives and principles. By recovering the program's revenue requirement over 9 years instead of 6 years and by distributing that revenue requirement over a broader subscriber base, the System had reduced rates for the majority of CCS subscribers.

The Board, therefore, approved, effective August 1, 1991 the revised rates and modification to the CCS program as applied for by the System.

The following table sets out the cost and revenues associated with the CCS Program from 1990 - 1999 under the then existing and now, currently approved program:

	Existing		Proposed & Approved	
Costs:	($000s)	%	($000s)	%
Program Costs	$ 26,011	25.2	$ 28,120	26.9
Revenue Settlement Impact	17,180	16.6	14,935	14.3
Foregone Toll Revenue	60,134	58.2	61,488	58.8
Total	$103,325	100	$104,543	100
Revenue Sources:				
CCS Revenue	$ 58,632	56.7	35,051	33.5
Winnipeg Subsidy	---		4,329	4.2
General Rate Base Subsidy	44,693	43.3	65,163	62.3
Total	$103,325	100	$104,543	100

4. The Application for an Order Approving the Trial of Call Management Services.

On January 11th the System applied to the Board for an Interim Ex Parte Order approving call management services (CMS) to be introduced in the cities of Brandon and Winnipeg by the spring of 1992. CMS was described by the System as a group of enhanced network features which included the follow:

Call Display - allows the customer to see at a glance the telephone number of the caller and decide whether to accept that call at that time.

Call Return - allows a customer to call the last person who called them whether or not the call was answered and to monitor a busy line, signalling when that line is available.

Call Screen - allows a customer to record up to 12 telephone numbers that will be screened to receive a message that the called party is not accepting calls at this time.

Call Trace - allows a customer to activate a trace of the previous call to produce a print-out of the caller's number that is available from the police.

This application was approved on an Interim Ex Parte basis by the Board in Order No. 21/91 dated March 5, 1991 to be effective May 5, 1991. The Board was not aware at that time of any unresolved concerns with respect to CMS. When Interim Ex Parte Order 21/91 came up for confirmation at the General Rate Application Hearing held in April, 1991, the Board heard the concerns of representatives of Ikew-Widdjiitiwin, (a Native Women's Crisis Centre), Osborne House and the Manitoba Association of Women's Shelters (MAWS). A result of the representations and questioning on this matter the Board suspended approval of the CMS application by Order 62/91 dated April 29, 1991 and further required MTS to meet with special interest groups and file a report with the Board summarizing the benefits and potential problems of CMS. This report was filed by the System on August 16, 1991. The System, in its report, described its contacts and discussions with

interested parties. The System further identified the concerns of the interested parties which included the use of CMS as a controlling device, the loss of anonymity and confidentiality and the inconvenience that would be created for persons seeking to maintain their anonymity, and the potential problems faced by abused women not in contact with shelters or to subscribers with non-published numbers.

As a result of these concerns, MTS amended its CMS offering and further proposed introducing the offering in Brandon only on a one year trial. The System amended its application to include the following:

1. That CMS be introduced initially as a one-year trial project in Brandon at the proposed monthly rates identified in the original application.

2. That during the trial these additional call display blocking options will be offered:

   a. Selective (per call) Call Display Blocking on request, and at no charge. To use Selective Call Display Blocking a customer must request this capability be installed on their line and then must dial a specific code at the beginning of each call for which Call Display Blocking is desired.

   b. Automatic (per line) Call Display Blocking on request for abuse victims both inside and outside shelters and at no charge. To have Automatic Call Display Blocking a customer must request this capability be installed on their line after which, blocking the display of outgoing calls is automatic without the need to dial a code.

In support of the amendments the System indicated that the trial period would be used to monitor and examine the extent to which concerns expressed about the service are borne out in practice and to determine whether the proposed display blocking options would cause a degradation in the value of call display. The rates for the various CMS features proposed by MTS are as follows:

	Monthly Rental	
	Residence	Business
Call Display	$3.95	$5.95
Call Return	$2.40	$3.40
Call Screen	$2.40	$3.40

	Per Activation	
	Residence	Business
Call Trace	$5.00	$7.00
Operator Call Blocking	$0.75	$0.75

The Board convened a public hearing to consider this application in Brandon on December 9, 10 and 19, 1991 and in Winnipeg on December 11, 1991. As of year ending December 31, 1991, the period covered by this report, no decision had been made by The Public Utilities Board.

MANITOBA HYDRO

Application for General Rates Effective April 1, 1991, 1992 and 1993

In November 1990 Manitoba Hydro applied to the Board for approval of a three year rate increase effective April 1, 1991, 1992 and 1993 with successive incremental revenue increases of $27 million, $28.7 million and $27.3 million.

The Board convened public hearings in Winnipeg commencing February 18 to 23, 1991 and conducted other meetings in The Pas, Thompson and Brandon to examine Manitoba Hydro's application.

The specific increases proposed by major customer classes is outlined below:

	1991/92	1992/93	1993/94
Residential	4.4%	5.0%	4.5%
General Service Small (Demand)	4.9%	5.0%	4.3%
General Service Small (Non-Demand)	3.4%	3.7%	3.3%
General Service Medium	4.0%	4.2%	3.7%
General Service Large	4.0%	4.2%	3.7%
Area and Roadway Lighting	2.5%	2.5%	2.5%
Construction	4.0%	4.2%	3.7%
Total General Consumers	4.1%	4.5%	4.0%
Diesel Full Cost	70.9%	0.0%	0.0%
Total Consumer Revenue	4.5%	4.5%	4.0%

Manitoba Hydro reaffirmed its principal financial objectives which included:

1. The short-term objective of achieving minimum reserves of $370 million by 1995. The 1995 forecast reserve is $375.6 million.
2. The long-term objective of reaching a debt: equity ratio of 85:15 within a ten-year period following achievement of the minimum reserve target. This objective is projected to be met by 2002.

3. The long-term objective of maintaining a gross interest coverage level of 1.15 to 1.25 which is projected to fluctuate as a result of new capital facilities. Gross interest coverage rises to a high of 1.29 in 1997 and falls to a low of 0.94 in 1993.

Manitoba Hydro indicated that its proposed rate increases were sensitive to current economic conditions:

In so doing Manitoba Hydro intended to hold average rate increases to 1.5, 1.0 and 1.0 percentage points below the forecasted rate of inflation in 1991/92, 1992/93 and 1993/94 respectively.

In its three-year rate application, Manitoba Hydro projected net income with and without rate increases as follows:

	Without Rate Increases ($ millions)	With Rate Increases ($ millions)
1991/92	($ 7.6)	$24.8
1992/93	($103.1)	($32.2)
1993/94	($ 26.6)	$86.4

In Order 29/91 dated March 20, 1991, and 33/91 dated May 27, 1991, the Board disallowed Manitoba Hydro's application for rate increases effective April 1, 1992 and 1993 due to the following current financial and operating conditions:

1. sensitivity of Manitoba Hydro's Integrated Financial Forecasts to changes in interest rates, escalation rates, Gross Domestic Product growth, interruptible export rates, water flows, water rental fees and temperature variation, all of which are beyond the Corporation's control.

2. annual variances in actual operating and capital expenditures from forecast.

3. annual revisions to the Forecast of Capital Program Expenditures.

4. events and decisions affecting Conawapa, Bipole III and the Ontario Sale.

5. funding of Manitoba Hydro's pension plan.

6. design, development, implementation and evaluation of Demand Side Management (DSM) programs.

7. ongoing resolution of cost of service issues.

8. annual revisions to the System Load Forecast.

In the Board's view the deferral of the next rate hearing until 1994/95 would not result in significant financial and time savings, and that any cost savings at this time would be far outweighed by the public interest that is served by periodic reviews.

The Board noted that Manitoba Hydro's proposed rate increases for 1991/92 were set with the intention of reaching its short-term objective of minimum reserves by 1994/95. The Board also appreciated Manitoba Hydro's viewpoint that its proposed rate increases are sensitive to the current economic environment. However, the Board concurred with the positions of intervenors that in these economic times, a lower rate increase could be granted for 1991/92. The Board approved a 3.1% average increase in general consumer rates (excluding diesel full cost) effective April 1, 1991 that was 1.0% lower than applied for by Manitoba Hydro.

The 1.0% reduction reduced Manitoba Hydro's requested revenue requirement increase by approximately $6.1 million to $20.9 million. The Board noted that this reduction may delay Manitoba Hydro's achievement of its 1994/95 minimum target reserve. However, the Board expected Manitoba Hydro to review its operating budgets to determine whether expenditures could be reduced to offset the $6.1 million reduction in Manitoba Hydro's proposed revenue requirement. The Board noted that Manitoba Hydro's minimum reserves were moving in the right direction and that its continued movement toward minimum reserves will be addressed at future hearings.

In reducing the overall revenue requirement of Manitoba Hydro, the Board ordered a 1.5% reduction in the proposed increase to residential rates, a 0.5% reduction in the proposed increase to general service medium rates, a 1.1% reduction in the proposed increase to general service large rates and a 2.5% reduction in the proposed increase to area and roadway lighting rates. The adjusted rates of increase are as follows:

Residential	2.9%
General Service Small (Demand)	4.9%
General Service Small (Non-Demand)	3.4%
General Service Medium	3.5%
General Service Large	2.9%
Area and Roadway Lighting	0.0%
Construction	4.0%
General Consumer Rate Increase	3.1%
Diesel Full Cost	70.9%
Total Consumer Rate Increase	3.5%

Diesel Zone customers in 13 communities in Northern Manitoba include approximately 2467 limited service customers, to whom Manitoba Hydro proposed to charge the same rate increases experienced by Zone 3. 348 full cost customers who would incur increases ranging from 34.5% to 57.1% depending on customer location and whether or not the customer has made contributions to generation and distribution costs. In addition, a surcharge to customers, Governments, would increase from 14¢ per k.W.h. to 31.3¢. The Board approved the rates as requested.

Board decisions respecting other topics of discussion are as follows:

1. The Board expects to receive Manitoba Hydro's report and recommendations respecting funding of pension liability by no later than the 1992 rate hearing.

2. Respecting Manitoba Hydro's prospective Cost of Service Study for the fiscal year ending March 31, 1992, the Board found that:

   (a) Manitoba Hydro's current methods of classifying and allocating generation and transmission costs were appropriate.

   (b) Manitoba Hydro should give priority to its load research program such that it be completed by 1994.

   (c) Winnipeg Hydro and the bulk customer class should be included in the cost of service study.

   (d) Manitoba Hydro's present method of calculating Revenue Cost Coverage Ratios is appropriate.

   (e) Manitoba Hydro's proposed zones of reasonableness of 0.9 to 1.1 (long-term) and of 0.85 to 1.15 (short-term) to be acceptable at this time.

   (f) Manitoba Hydro's change in rate design progressing toward "a minimum number of rate classifications" was noted and accepted.

3. Manitoba Hydro indicated that negotiations with Winnipeg Hydro respecting a new power agreement were not complete. Manitoba Hydro's position was that the agreement was a "cost-sharing agreement" and therefore did not fall within the "rates for services" as defined in The Crown Corporations Act. The Board noted that it was unable to resolve the issue of whether it has a duty and jurisdiction in this regard, but ordered Manitoba Hydro to give the matter sufficient priority such that Manitoba Hydro will have filed with the Board an executed copy of the agreement by January 1, 1992.

4. The Board noted Manitoba Hydro's goals respecting DSM and the importance of evaluating the cost-effectiveness of DSM programs due to the impact on consumer rates, and directed Manitoba Hydro to file its 1991 DSM study as soon as available but by no later than the next general rate hearing.

Application for $6 Million Rebate

By letter dated September 4, 1991, Manitoba Hydro advised the Board that a net savings of $6 million would be experienced as a result of The Public Sector Compensation Management Act for the fiscal year ended March 31, 1992. By letter dated September 17, 1991, Manitoba Hydro applied to the Board for an Interim Ex Parte Order allowing Manitoba Hydro to provide all customers with a rebate on electricity consumed during the billing period October 1, 1991 to March 31, 1992 in the amount of 1.77%. Pursuant to this application an ex parte hearing was held on September 26, 1991.

Manitoba Hydro indicated that, while a net saving of $6.0 million on employee wages would occur, other expense components experienced by Manitoba Hydro during that fiscal year were worse than originally forecast at the February, 1991 rate hearing by an amount of $13.1 million.

The Board therefore was of the view that a substantive argument could be made to disallow the rebate, allowing Manitoba Hydro to continue its progress, at minimum rate increases, toward its minimum reserve target. The Board was further of the view that ratepayers of Manitoba Hydro should have an opportunity to express their views on this matter.

Consequently the application was set aside and the Board required Manitoba Hydro to set aside in an interest bearing account an amount each month equal to the amount that would have been rebated to the customers. The matter was scheduled to be reviewed by the Board at the 1992 general rate application hearing, at which time more current financial forecasts will be available, as well as a revised financial forecast for 1993.

In addition, interim ex parte orders are normally issued at times of urgency and as the impact of the rebate for a non heat load residential consumer would be very small, and increasing for commercial and other users, the Board is of the view that urgency could not be satisfied at that time.

Application for General Rates Effective April 1, 1992

On November 20, 1991, Manitoba Hydro applied to the Board for approval of revised rates effective April 1, 1992 which will result in a revenue increase of $21.4 million approximating a 3.5% increase in general consumer revenue.

The application was arranged to be heard by the Board in Winnipeg commencing February 24, 1992 and in Brandon on March 2, 1992.

MANITOBA PUBLIC INSURANCE CORPORATION

Regulation by the Board of rates for drivers' insurance and basic automobile insurance is pursuant to Part IV of The Crown Corporations Act and The Manitoba Public Insurance Corporation Act.

In 1991 the Board dealt with one Manitoba Public Insurance Corporation (the Corporation) rate application for the 1992/1993 Insurance Year, ending February 28, 1993. In total, the Board issued seven orders relating to the Corporation in 1991.

1992 Insurance Rate Hearing

On June 12, 1991, the Corporation applied to the Board for an order approving rate bases and premiums (or rates) with respect to the compulsory driver and vehicle insurance (Basic Insurance) for the 1992/1993 Insurance Year.

The public hearing of the Application was held at the Viscount Gort Flag Inn, Winnipeg, from September 30, 1991 to October 2, 1991 and in the Board's office on October 16, 1991. A non-evidentiary hearing was held in Brandon, on October 8, 1991.

Details of the Application by category is as follows:

Revenues: The original application requested an increase in Basic Insurance Premiums of about $13.0 million representing a 4.6% increase over existing rates in order to achieve a break-even position. Subsequent to the public hearing, the Corporation amended its application lowering its revenue requirements to $7.3 million or an average increase in Basic Insurance premiums of 2.56%. The revised application eliminated the across-the-board 1.75% GST increase included in the original application.

In amending its application, the Corporation changed the method of allocating investment income between the Basic Insurance Program and the optional motor vehicle insurance program, or Extension Insurance, within the Automobile Division. The transfer of $53.8 million from Extension Insurance to Basic Insurance increased investment income accruing to Basic Insurance by $4.3 million. The Corporation's evidence was that it contemplated changes to the coverages of Extension Insurance that will result in an increase in claims and a decrease in premiums. Altogether Extension Insurance net income is to decrease to $4 million from the $14.0 million original projection.

The premium increase was estimated to result in a "break-even" position for Basic Insurance in 1992/93, which, combined with a net income of $4,000,000 from the Extension Division, would result in a total net income of $4,144,000. Vehicle premium revenue would increase by $16,261,000 of which $8,996,000 would result from vehicle upgrading, growth, vintaging and merit/non-merit shifts, with the balance of $7,265,000 resulting from premium increases.

1992/93 Rate Adjustments: The following rate adjustments were proposed:

For vehicles in the Private Passenger category including pleasure, all-purpose, business/delivery, farm and school cars, pleasure and all-purpose trucks, farm trucks less than 3,631 kg, private buses, antique vehicles and motorhomes:

a) a general increase of 5.5% (minimum $15) to be assessed on all non-merit ("standard") rates, except business/delivery cars;

b) merit rates to be adjusted toward a target ratio of 75% of the corresponding standard rate. The ratio will not be allowed to change by more than two percentage points and no merit rate will be allowed to decrease;

c) additional increases of 2.5% to be assessed on standard rates for school cars and commuter (Territory 5) vehicles, except business/delivery cars;

d) increases of 2.75% to be applied to standard business/delivery cars in Territories 1, 2, 3 and 4 and 4% in Territory 5. Also, in making the adjustment toward the 75% merit/standard target ratio, the maximum change allowed for business/delivery cars will be 4 percentage points rather than 2 percentage points; and

e) special increases ranging from 22% to 54% to be applied to approximately 250 speciality and sports cars.

For vehicles in the Commercial category, including farm/fisherman trucks over 3,630 kg, other trucks used for commercial purposes, dealer/repairer vehicles, commercial trailers and snow vehicles:

a) no general increase to be assessed on rates for commercial vehicles;

b) experience increases ranging from 3% to 7% to be assessed against selected commercial vehicle groups based on five year average loss ratios; and

c) artisan trucks and miscellaneous trucks less than 16,331 kg which are required to insure as commuters (Territory 5) to be assessed increases of 8% to maintain equity with similar private passenger vehicles.

For vehicles in the Public category, including U-drive and courtesy cars and trucks, transit, school and other public uses buses, handi-cab vans, taxis, limousines and other livery vehicles and police vehicles:

a) a general increase of 2% (minimum $15) to be assessed on rates for all public vehicles;

b) additional experience increases ranging from 3% to 7% to be assessed against selected public vehicle groups based on five year average loss ratios;

c) adjustments ranging from -14% to +16% to be applied to police cars, ambulances and police trucks; and

d) adjustments ranging from -13% to +14% to be applied to hearse/funeral/wedding cars. Livery/limousine vehicles which have restricted use as hearse, funeral or wedding cars to receive rate decreases of 23%.

For vehicles in the Motorcycle category, including mobility vehicles and mopeds:

a) a general increase of 10% (minimum $15) to be assessed on standard motorcycle rates for Territories 1, 2, 4 and 5. No increase to be applied to rates for Territory 3;

b) motorcycles insured for commuter use to be assessed an additional 3% increase;

c) merit rates to be adjusted towards a target of 75% of standard rates in the same manner as private passenger vehicles; and

d) no increase to be applied to rates for mobility vehicles and mopeds.

For vehicles in the Trailer category, including utility, house, cabin and tent trailers, a general increase of 3% (minimum $1) to be assessed on all trailer rates.

Various miscellaneous rate adjustments are also proposed, as follows:

a) increases of 3% (minimum $1) to be applied to rates for miscellaneous permits, stickers and markers;

b) additional increases of up to 3% to be applied to trucks under 3,631 kg and standard all-purpose and pleasure trucks under 16,330 kg to accommodate a change in the rating group structure from six groups to thirteen;

c) special increases ranging from 1% to 7% to be assessed on trucks over 16,330 kg and PSV buses in rating groups 6 through 0. These increases are:

Rate Group	0	1	2	3	4	5	6
Percent Increase	7%	6%	5%	4%	3%	2%	1%

These vehicles carry only third party liability and accident benefits coverage. This is a continuation of efforts to equalize premiums across all rating groups for these vehicles;

d) assorted adjustments in the form of rate caps to be applied to adjust for anomalies in the rating structure; and

e) dishonoured cheque fee to be increased from $10 to $20.

The revenue and expenditures from the Corporation's amended application are as follows:

	1991/92 Forecast	1992/93 Forecast Without Rate Increase	1992/93 Forecast With Rate Increase	Increase Requested
REVENUES				
Premiums - Motor Vehicles - Drivers	$274,800 22,535	$283,796 22,736	$291,061 22,736	$7,265 0
	297,335	306,532	313,797	7,265
Reinsurance Coded	(2,443)	(2,516)	(2,526)	(10)
	294,862	304,016	311,271	7,255
Investment Income	50,127	55,941	56,522	581
TOTAL EARNED REVENUES	$344,989	$359,957	$367,793	$7,936
EXPENDITURES				
Claims Costs - Claims Incurred Claim Expenses	$265,992 34,375	$286,432 35,391	$286,432 35,249	$ 0 (142)
	300,367	321,823	321,681	(142)
Operating Expenses	22,735	23,451	23,713	262
Commissions	12,131	12,543	12,841	298
Premium Taxes	8,920	9,196	9,414	218
TOTAL CLAIMS & EXPENSES	$344,153	$367,013	$367,649	$636
NET INCOME (LOSS) BASIC	836	(7,056)	144	7,200
NET INCOME (LOSS) EXTENSION	14,851	7,720	4,000	(3,720)
NET INCOME (LOSS) TOTAL	$15,687	$664	$4,144	$3,480

Claims Costs: The claims incurred costs were expected to increase by $20,440,000 or 7.6% over 1991/92, including approximately $5,000,000 because of the Goods and Services Tax (GST). Claims incurred costs represent 77.9% of total costs. These estimates are subject to the greatest variability due to factors beyond the Corporation's control: weather, individual driving habits and the external legal environment. The Corporation's traditional financial method of forecasting claims incurred costs indicated the $286,432,000 cost included in the application. The actuarial approach, using the exponential trend for bodily injury claims, resulted in a claims incurred estimate of $310,300,000. However, using a linear trend with the actuarial methodology resulted in claims incurred cost estimate of about $290,000,000, which is consistent with the financial forecasting model.

Operating expenses were forecast to increase by 4.3%, and claims expenses by 2.5% over 1991/92. The Corporation estimated the rate of inflation to be 4.0% in 1992/93 and imposed a 3% increase guideline for 1992/93 expense increases. Commissions paid to the Corporations' agents and premium taxes paid to the Province of Manitoba (at a rate of 3%) are a function of premium revenues and neither increased significantly over 1991/92.

The Board concluded that the Corporation's projected operating results for the insurance year ending February 28, 1993 were reasonable. It noted that without the $5,000,000 increase in claims incurred costs attributable to the GST and with the revised investment income allocation, the required increase in vehicle premiums would have been 0.8% to maintain a "break-even" position for Basic Insurance.

Rates: The premium increases approved by the Board, would have rate impacts (excluding impacts of fleet rebates, vintaging, rate group drift and premium shift) as follows:

MAJOR USE	PERCENT INCREASE
Private Passenger	2.61%
Commercial	1.44%
Public Vehicles	4.37%
Motorcycles	8.58%
Trailers	3.42%
TOTAL	2.61%

Individual vehicle premium increases within a major use category will be higher or lower, depending on factors such as loss experience, "luxury car", transition from School Use Category to All Purpose and for Territory 5, commuters.

The 1992/93 rate design was modified in two major ways from that previously used. Firstly, the spread between merit and non-merit rates was to be limited (merit rates set at 75% of non-merit rates) in order to maintain the principle of universal affordability and to position the Corporation for the introduction of the proposed bonus/malus rating system. Under the bonus/malus system a bench mark rate would be struck within a major use subgroup, such as All Purpose, to recover the required revenues for that subgroup. Individual rates would be higher or lower than that bench mark rate, depending on the individual driver's record. Currently, the maximum spread between merit and non-merit is close to 75%, and the fleet rebate program maximum discount is 25%. The Board accepted this change in rate design on the understanding that the Corporation will duly bring forward a timely proposal for the consideration of a bonus/malus system.

The second change in the Corporation's 1992/93 rate design was the introduction of an actuarial methodology in establishing rate adjustments for major uses as opposed to its prior use which only provided an estimate of overall required increases.

The other rate design features proposed by the Corporation were a number of special rates for School insurance use and territory 5 for increases of 2.5 percent, for emergency and special use vehicle changes based on actual loss ratio status and increases for luxury cars.

The Board also requested the Corporation to promote the implementation of a post-repair inspection system and to provide:

- an update on the Corporation's progress with regard to its strategic initiatives
- an update on the reasons for change or lack of changes to compulsory basic insurance coverage
- an update on the reasons for changes or lack of change to the Basic deductible
- an update on the Corporation's plan to implement cyclical renewals
- an update on the Corporation's proposed accident surcharge system, and
- an update on the Corporation's proposed time payment plan.

Reserves: The Rate Stabilization Reserve (RSR) level, projected to February 28, 1993, is $55,670,000. The RSR target at 15% of Direct Premiums written is about $53,000,000. The Corporation proposed to utilize a portion of the RSR to create a catastrophe Reserve ultimately totalling $8,000,000, with $2,700,000 being reserved from Extension insurance projects in 1992/93. The purpose of the catastrophe reserve is to protect ratepayers from future rate increases due to hail or rainstorm related occurrences.

The Board approved the Corporation's request for 1992/93 compulsory driver and vehicle insurance premiums in Order 148/91, dated November 27, 1992. The premiums represented an increase of 2.56% over revenues generated by the 1991/92 premiums. The Board noted while the overall increase in vehicle premiums are approved as

requested, individual vehicle premiums increase may be higher or lower than the averages. Altogether the rates for five of six premiums will be within $20.00 of the previous year rate.

Details of the Corporation's distribution of revenue, annual expenses and the status of the RSR are shown in the following Figures 6, 7, and 8.

Jurisdiction

During the course of the 1992 Insurance Rate Hearing information requests process, the Corporation refused to respond to certain specific requests submitted by Consumers Association of Canada (Manitoba Branch)/Manitoba Society of Seniors (CAC/MSOS). On August 12, 1991 CAC/MSOS filed a Notice of Motion with the Board for an Order compelling the Corporation to provide this information. The Corporation's position was that, while the matters raised by CAC/MSOS might be of general public interest, the Board should be confined to the jurisdiction of whether the Basic Insurance rates required were reasonable for the service being offered. The Board, in Order 120/91, dated September 3, 1991, claimed jurisdiction and directed the Corporation to supply responses to the information requests submitted by CAC/MSOS.

Subsequent to the issuance of Order 120/91, the Corporation announced its intention to seek leave in the Court of Appeal to appeal this Order. Board Counsel suggested that interested parties observe certain procedures which would allow the continuance of the hearing on the understanding the Board would state a case to the Court of Appeal respecting jurisdiction issues. Subsequent to discussions held with interested parties, the Board issued Order 132/91, dated September 26, 1991 which directed the following:

1. Pursuant to Section 44 (3) of The Public Utilities Board Act, the operative section of the Order 120/91 is suspended until such time as a judgement of the Court of Appeal pursuant to the stated case to be formulated and filed by the Public Utilities Board shortly after February 1, 1992, is handed down.

2. A further Order of the Board may be made upon obtaining the judgement of the Court of Appeal pursuant to the circumstances of the judgement.

3. The General Rate Application filed by the Corporation shall proceed on September 30, 1991, as scheduled, **absent contentious points of jurisdiction** raised in Order 120/91 and with such other considerations as the Board may from time to time consider appropriate.

OTHER

The following Figures 6, 7 and 8 inclusively provide a graphic representation of the financial operating statistics relating to basic services in the Automobile Division of Manitoba Public Insurance Corporation.

WATER AND SEWER UTILITIES

The Board issued a total of 82 Orders respecting applications filed with the Board by local municipal authorities, as set out below:

(i) 46 applications requesting approval and authorization for method of recovery pertaining to operating deficits for the year ending December 31, 1990, one application for approval of additional revenue deficits for 1990, and one amending revenue deficit for the year 1989. Orders were issued authorizing all 48 applications.

(ii) 23 applications for revisions, amendments to or establishment of rates were processed and Orders were issued authorizing same. Board guidelines which have been prepared and distributed to local authorities were applied wherever possible to assist with rate design and to ensure that sufficient revenue would be provided to cover normally anticipated operating expenses plus an adequate contingency allowance. Applications were handled by public hearing or returnable date notice. In all cases the municipalities and affected water and sewer customers were served appropriate notice.

(iii) 11 applications for establishment of or amendment to utility reserve funds were processed and Orders issued to authorize the creation of the reserve funds.

The Board authorized 30 requests by municipalities to make expenditures from their utility reserve funds for miscellaneous purposes relating to the operations of the utilities.

The Board's staff assisted applicant municipalities and others contemplating changes and seeking guidance in the preparation of their applications thus reducing the cost to the municipalities in preparing a report. Board's staff met frequently with municipal representatives to ensure that applications were filed in the form prescribed by the Board, pursuant to statute. In most instances, these applications required the preparation of rate studies, and when necessary, public hearings were held in the applicant municipalities.

Note: The Board's general guidelines were introduced in 1977 to assist an applicant municipality in the preparation of an application and supporting rate study, for the approval of rate increases, or for the establishment of utility rates.

TRANSIT UTILITIES

The Board issued two Orders respecting the approval of agreements between the City of Thompson and Thompson Bus Lines (1984) Ltd. and/or accompanying rates respecting the provision of regular transit service and transit service for the mobility disadvantaged.

The Board issued one Order respecting the approval of revised user fees and routes for the City of Brandon Transit System.

The Board monitors on an annual basis the continued maintenance and inspection of vehicles related to the safety of operation of Seniors Transport Service Inc., which operates a senior citizen transportation service in defined areas in Winnipeg.

Note: The City of Winnipeg water and sewer utility and Winnipeg Transit are excluded from regulation by The Public Utilities Board.

THE HIGHWAYS PROTECTION ACT

Pursuant to Section 21 of The Highways Protection Act four public hearings were held respecting appeals of decisions of The Highway Traffic Board and, subsequently, three Orders were issued in 1991. A decision on the fourth will be issued in 1992.

The applications dealt with appeals against decisions of The Highway Traffic Board respecting applications for permits to construct or to relocate access driveways onto Limited Access Highways and to construct facilities within designated Controlled Areas adjacent to Provincial Truck Highways.

Three appeals were dismissed while the fourth is under consideration.

The Board received one additional appeal in 1991 which was not acted upon pending clarification of the legal right of the party to appeal pursuant to the Act.

A public hearing is held by the Board in response to each appeal application under The Highways Protection Act.

THE PREARRANGED FUNERAL SERVICES ACT

As administrator of The Prearranged Funeral Services Act, the Board is responsible for licensing companies selling prearranged funeral plans and for ensuring that the operations of these firms conform to statutory requirements.

In 1991, the Board issued 25 renewal licences. Twenty-one applications for revisions in fees for services, as well as one application for sales contract revisions and one for Authorized Trustee agreement revision, were approved.

The Board continued to review and monitor the annual reports filed by the licensees and their trustees in respect of the prearranged funeral plans being sold and the contracted funds maintained in trust.

THE CEMETERIES ACT

Pursuant to Part III of The Cemeteries Act, the Board reviews applications and issues licences to the owners of cemeteries, columbariums and mausoleums owned and operated for gain and to those not owned and operated for gain at which not more than 15 sales of plots occur in any year.

Pursuant to Part II of the Act, approves the plans of and issues licences for the operation of crematories.

During the year the Board issued renewal licences for the operators of 9 cemeteries, 5 columbariums, 3 mausoleums and 8 crematories. Forty-three licences and 6 transfer licences to sell cemetery services were issued either to owners or to their sales personnel. In addition, 8 applications for revisions in schedules of fees for spaces, materials and services and one amendment to the sales agreement were authorized.

The Board continued to monitor the progress of licensee applications for the passing of accounts by the Court of Queen's Bench in respect of perpetual care funds collected and deposited in trust funds with authorized trustees pursuant to The Cemeteries Act. These accounts are due for passing at varying times, and during the year, the passing of accounts was completed for one cemetery.

FINANCIAL INFORMATION

REVENUES/EXPENDITURES

The financial affairs of the Board are conducted through the Estimates of the Department of Consumer and Corporate Affairs. Accordingly, the expenses of the Board are paid out of the Consolidated Fund and these expenses are recovered in whole or in part from the regulated industries.

For the fiscal year ending March 31, 1991 the Board's expenditures and revenues were as follows:

Revenues		$2,487,361
Expenditures		
Hearing and Administration Costs	$1,873,900	
Salaries and Per Diems	$ 524,200	$2,398,100
Surplus/Deficit		$ 89,261

Order 38/89 sets out the means by which the Board recovers its expenditures relating to proceedings before the Board. Order 25/90 together with Order-in-Council 422/90 provide for the Board to recover costs including administration and salaries from the major regulated industries including Manitoba Telephone System, Manitoba Public Insurance Corporation, Manitoba Hydro and the natural gas and propane utilities.

INTERVENER FUNDING

Pursuant to The Public Utilities Board Act and Order 163/87, the Board may award costs to parties making an intervention in matters before the Board. These costs are paid directly by the applicant entity and, therefore, do not form part of the expenditures of the Board. Details of awards in calendar year 1991 are set out as follows:

	Applied for	Granted (Note 6)
Manitoba Telephone System		
CAC/MSOS (Note 1)	$ 44,265.82	$ 44,265.82
CONECTS (Note 2)	$ 28,080.28	$ 14,855.28
Centra Gas Manitoba Inc.		
1991 Interim Rate Hearing		
CAC/MSOS	$ 36,169.63	$ 36,169.63
Long Term Storage Hearing		
CAC/MSOS	$ 17,454.39	$ 17,454.39
Energy Brokers Canada Inc.	$ 790.00	Nil
General Rate Application		
CAC/MSOS	$159,810.46	$159,810.46
Manitoba Hydro		
Capital Review		
MKO (Note 3)	$ 20,316.05	$ 20,316.05
MIPUG (Note 4)	$ 65,525.00	$ 65,525.00
1991 Rate Application		
CAC/MSOS	$ 14,258.88	$ 14,258.88
The Manitoba Public Insurance Corporation		
CAC/MSOS	$ 14,413.50	$ 14,413.50
ATA (Note 5)	$ 14,880.00	$ 6,000.00

Note 1: Consumers Association of Canada (Manitoba) and Manitoba Society of Seniors

Note 2: Citizens Opposing Non-Equitable Charges for Telephone Services

Note 3: Manitoba Keewatinowi Okimakanak Inc.

Note 4: Manitoba Industrial Power Users Group

Note 5: Automotive Trades Association Manitoba Inc.

Note 6: For the purpose of this Report, the granted amounts include decisions made by the Board in early 1992.